

## Revenue growth currently offset by freight costs

SDI Limited (ASX:SDI) conducts the research and development, manufacturing and marketing of dental restoration materials and related products. Selling to more than 100 countries with dedicated sales teams in Australia, Europe, North America and Brazil, SDI is the largest dental manufacturer in Australia. SDI was founded in 1972 and listed on the ASX in 1985. SDI's key focus categories are aesthetics (45.0% of H1 FY22 sales) and whitening (31.5%), with new product development and an internal sales team key to marketshare gains. These categories grew sales 29% and 19% respectively in H1 FY22 despite some COVID-related disruptions around supply chain and lockdowns in Australia. The group's brands include Pola, Riva, Luna, and Radian Xpert. In addition to new product development, the group is undertaking a review of warehousing and manufacturing facilities to improve operating efficiencies and, in turn, margins, with details expected during CY22. Net cash declined \$4.0m at December 2021 due to inventory build-up and additional freight costs, but SDI remains in a net cash position (\$6.5m) with an unused \$10m debt facility, well-funded to deliver key initiatives. H1 FY22 saw a significant (\$2.7m) increase in freight costs (mainly inbound materials as clients pay outbound), more than offsetting a 26% increase in sales for the period. EBITDA as a result declined 30.3% with the freight costs a material contributing factor of this decline on the PCP. Price increases are in train to offset margin pressure, but there is a lag.

### Business model

SDI is a vertically integrated researcher, developer, manufacturer and distributor of dental restoration materials, tooth whitening and related products. These products are essentially medical devices and subject to significant regulatory and technical review before being available on the market. To gain marketshare SDI is focused on: new product development (at least one-two new products per year); building its own sales team complete with adequate systems to better understand clients; and expanding manufacturing facilities to improve efficiencies.

### Elevated costs impact H1 FY22 earnings

Despite delivering sales growth in A\$ terms of 26% over H1 FY22, group EBITDA declined 30.3% on the back of elevated freight costs (\$2.7m, which represented 100% of the earnings decline over the period). This resulted in a 1,250bps decline in gross margin to 52.4%, which was also impacted by geographical mix (stronger sales into lower-margin regions). On the revenue front the group saw growth across all product categories led by amalgam (+40%) and aesthetics (+29%). Regionally, APAC sales declined due to Australian lockdowns during the half impacting dental activities (-9%), while all other regions were significantly higher as operating conditions "normalised".

### Established medical device companies logical peers

Peers for SDI are well-established mid-cap medical device companies with an established market position, gross margins between 60% and 70%, and operating in a regulated industry. Companies that fit most of these criteria include fertility players Monash IVF (ASX:MVF) and Virtus Health (ASX:VRT), and sleep apnoea player Oventus (ASX:OVN), albeit they are much smaller and not profitable.

#### Historical earnings and ratios (In A\$m unless otherwise stated)

Year end	Revenue	EBITDA Adj.*	NPAT Adj.*	NPAT Rep.	EPS Adj. (c)	EPS Rep. (c)	EV/Revenue (x)^	EV/EBITDA (x)^	PER (x)^
06/18a	74.54	12.15	5.66	5.66	0.05	0.05	1.2	7.6	16.6
06/19a	79.60	14.18	7.33	7.33	0.06	0.06	1.2	6.5	13.8
06/20a	67.37	9.80	1.81	4.24	0.02	0.04	1.4	9.4	41.5
06/21a	81.65	16.80	4.48	8.94	0.04	0.08	1.1	5.5	20.8

Source: Company data; \*EBITDA, NPAT and EPS adjusted for one-time, non-cash items ^calculated from current enterprise value and share price

## Health Care Equipment & Services

11<sup>th</sup> March 2022

### Share Details

ASX code	SDI
Share price	\$0.83
Market capitalisation	\$98.7M
Shares on issue	118.9M
Net cash at 31-Dec-2021	\$6.5M
Free float	38.15%

### Share Performance (12 months)



### Upside Case

- Supply chain costs ease from elevated levels
- New product development success
- New clients

### Downside Case

- Adverse currency movements (87% of product is exported)
- Adverse publicity on key products
- Increased price competition

### Catalysts

- Easing of freight cost pressures/ price increases
- Details of manufacturing/DC upgrades

### Comparable companies (Aust/NZ)

Monash IVF I (ASX:MVF), Virtus Health (ASX:VRT), Oventus Limited (ASX:OVN)

### Board and Management

Jeffrey Cheatham	Non-Executive Chair
Samantha Cheatham	Managing Director/CEO
John Slaviero	Dir. Finance/COO/CoSec
Cameron Allen	Non-Executive Director
Gerald Bullon	Non-Executive Director
Dr Geoffrey Knight	Non-Executive Director
Gerard Kennedy	Non-Executive Director

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# FINANCIAL SERVICES GUIDE

**RaaS Advisory Pty Ltd**

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**Corporate Authorised Representative, number 1248415**

**of**

**BR SECURITIES AUSTRALIA PTY LTD**

**ABN 92 168 734 530**

**AFSL 456663**

**Effective Date: 6<sup>th</sup> May 2021**

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- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

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**What Financial Services are we authorised to provide?** RaaS is authorised to

- provide general advice to retail and wholesale clients in relation to
  - Securities
- deal on behalf of retail and wholesale clients in relation to
  - Securities

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Website: [www.afca.org.au](http://www.afca.org.au); Email: [info@afca.org.au](mailto:info@afca.org.au); Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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