



# Biotech Daily

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*Daily news on ASX-listed biotechnology companies*

## Dr Boreham's Crucible: SDI

(Formerly Southern Dental Industries)

By TIM BOREHAM

**ASX code:** SDI

**Share price:** 85.5 cents; **Shares on issue:** 118,865,530; **Market cap:** \$101.6 million

**Financials (first half to December 2022):** revenue \$50.5 million (up 9%), earnings before interest tax depreciation and amortization \$6.1 million (up 16%), net profit \$2.71 million (up 0.9%), earnings per share 2.28 cents (up 0.9%), dividends per share 1.5 cents (steady), cash balance \$6 million (down 7.7%), net debt \$20.8 million (no debt previously).

**Chief executive officer:** Samantha Cheetham

**Board:** Jeffery Cheetham (chair), Ms Cheetham, Cameron Allen, John Slaverio, Gerald Bullon, Dr Geoffrey Knight, Gerard Kennedy

**Identifiable major shareholders:** Cheetham family interests 45.8%, Garrett Smythe Ltd 3.2%, Nicholas and Annette Debenham 4.37%, Dr Geoffrey and Anneli Knight 1%.

For dental patients with a gob full of suction tubes and probing and whirring instruments of torture, the providence of material such as fillings and applicators is usually far from their minds.

Pinned down in the chair, the victim - er - patient might perceive the process of filling teeth doesn't seem to have changed for decades. In reality, advances in material technology are making the visit to the dentist quicker and more comfortable - with more aesthetically appealing results.

In a corporate sense there's nothing new about the ASX-listed SDI - formerly Southern Dental Industries - which has been making and exporting dental supplies for more than 50 years.

The Melbourne-based SDI is a model in longevity in a sector with high regulatory barriers and commoditized products.

While small by world standards, SDI competes with the likes of Dentsply, 3M, Kerr Dental and Coltene. But SDI is seeking to change the face (or mouth?) of dentistry with new techniques and materials.

## **About SDI**

SDI was founded in 1972 by Jeffery James Cheetham - now the company chair - with pretty much the same remit of developing and manufacturing specialist dental materials.

The company listed on the ASX in 1985 and around this time, the business nearly imploded after deciding to invest in heavy dental equipment, including chairs. As with the patients in the said chairs, this proved a painful experience and Mr Cheetham vowed the company would stick to what it knew best.

Mr Cheetham's daughter, Samantha, took over as CEO in July 2016, having been sales and marketing supremo. Two of her four brothers are also involved in the business.

SDI is based in the outer Eastern Melbourne suburb of Bayswater, where it exports to more than 100 countries. The company also has offices and warehouses in the US, Brazil and Germany. With the exception of some electronic componentry, all of SDI's products are made at Bayswater which, by the way, is nowhere near the sea.

Last August, the company announced the \$17.8 million purchase of a larger, six-acre site in nearby Montrose, with a 4,000 square metre warehouse. The company will shift its warehousing there later this year and eventually relocate its HQ and sell its current digs.

Last year, SDI was bestowed two gongs from Victoria's Governor Linda Dessau: Victorian Exporter of the Year and the International Health Award.

## **What a lovely smile**

The basic technique of applying fillings hasn't changed much over time, but the desire for a perfect smile has intensified.

"Everyone looks at themselves - far more especially in these Zoom times," Ms Cheetham says - a reference to staff wanting to look their best on video calls.

In the days of yore, most of SDI's revenues derived from the old amalgam filling material, which has an unappealing silvery-grey look.

Your columnist wonders why this gob bog is still used widely, given visible cavities are filled with white material based on powdered glass.

“Amalgam is much stronger and lasts 10 to 20 years,” Ms Cheetham says. “They are also easy to place with fewer steps involved”.

“It’s been a tried and proven filing material. It’s like steel in your mouth but it’s ugly and we recognize that everyone wants to have a much more beautiful smile.”

### **Hoping for a Stela performance**

Last year the US Food and Drug Administration approved Stela, a tooth-colored filling that is stronger than amalgam and “able to withstand high mastication forces”.

The Australian Therapeutic Goods Administration and Brazilian regulator has also approved the product, with European assent expected this year.

While amalgam remains an important revenue source for the company, it’s becoming less important in the sales mix in favor of tooth whitening and white filling products.

Stela is as close as it gets to a “blockbuster” release, although management is coy on the likely revenue it will generate.

Stela is a replacement not just for an amalgam, but for all posterior (back) fillings that account for about half of all fillings.

The Stela kits contain a metal tip which directly exudes the substance into the cavity and a special curing light is not required.

Another key advantage is the dentist can fill the cavity at once, rather than building the filler layer-by-layer so that it dries properly (any handyperson who has worked with Polyfilla will understand this).

“It’s super strong and won’t cause sensitivity because it is gap-free,” Ms Cheetham says.

Stela was developed in cahoots with the University of New South Wales, University of Wollongong and University of Sydney.

The first US orders are expected this year, while the company will use this month’s International Dental Show in Cologne to launch in countries that don’t require formal approvals.

“We are excited by Stela and the opportunity it creates, not only as an amalgam replacement product but its aesthetic character, given its strength and natural tooth color,” Ms Cheetham says.

Stela cost SDI a modest \$1.5 million of the total \$6 million development cost, with the remainder borne by the universities and government grants.

## **Filling in the product gaps**

SDI is also poised to launch another aesthetic product called Riva Cem Auto Mix, a self-curing, fluoride-releasing paste/resin for cementing metal and ceramic restorations.

SDI has a long-standing target of releasing one to two new products each year, if only tweaks on the company's current offerings.

A past example is Reva Star Aqua, a non-smelly fluoride product that is dispensed to kids more easily.

Ms Cheetham's says SDI's in-house scientists focus on manufacturing readiness and advancing ideas from university collaborations or the company's own staff.

"We operate in a highly regulated industry and our investments in research and development are key to maintaining our relevance and market advantages," she says.

SDI also has another composite product in the offing, as well as a mixing machine for the capsules, a new applicator for glass ionomer capsules and a new glass ionomer cement.

"We are starting to be recognized by the Americans as an innovative company.," Ms Cheetham says.

## **Finances and performance**

SDI posted record sales of \$50.5 million for the December 2022 (first) half year, up nine percent year-on-year.

However, stubbornly high costs limited the net profit increase to \$2.7 million, up 0.9 percent.

The increased sales were spurred by both the new-world aesthetic and old-school amalgam products: the former gained eight percent to \$47.4 million, while the latter increased 17.8 percent to \$17.4 million.

The amalgam performance was helped by two dental giants exiting this market segment.

Whitening products declined 18.7 percent to \$28.9 million, largely because of sales in inflation-ravaged France being not so magnifique.

UK demand was especially strong - which goes to show that Brits value pearly whites as well as stiff upper lips, in tough times.

Europe accounted for 34 percent of revenue and North America 23 percent, with South America - mainly the beauty conscious Brazilians - contributing six percent.

SDI's previously 'lazy' balance sheet has gone to the gym: the property purchase means SDI has net debt of \$20.8 million, compared with nil previously.

But the gearing didn't deter management from proclaiming a 1.5 cents per share dividend, steady on the previous period. Debt will be reduced by \$5 million to \$6 million from proceeds of selling two existing premises.

Bayswater HQ - which has a book value of \$15 million and a market value well beyond that - eventually will be sold as well.

Investors were underwhelmed by the results, ending SDI shares down eight cents, or 8.4 percent, to 87 cents.

Over the last year SDI shares have swung between 73 cents (mid-June last year) and 94 cents (early February 2023).

Over time SDI shares have moved between seven cents (early 1999) and \$2.38 (January 2004).

### **This might hurt a bit**

Management reports that inflation and cost pressures are starting to moderate - a key message of the Australian profit reporting season generally.

But chief finance officer John Slaviero said the company was still being impacted by high input costs, notably for specialized refrigerated shipping containers.

In some cases, goods have been held up in a container at the docks for up to six months, which meant the company had to use air freight to fill orders.

The company is managing to pass on some - but not all - of the cost rises to customers.

### **Dr Boreham's diagnosis:**

While SDI has been quietly ambling along for decades, Stela promises to move the dial in a way no other product has done to date.

One non-company estimate doing the rounds is for potential short-term sales of \$75 million and as much as \$600 million in the longer term.

Not one for rash prognostications, Ms Cheetham says SDI would be happy with one to two percent of the market and "it will take us a few years to build traction".

In the meantime, SDI continues as an unusual Australian manufacturing success story.

"We are lucky enough to have good margins," Ms Cheetham says.

"Our key competitors are based in the US, Japan and Germany, Switzerland and Liechtenstein, so they have large cost bases as well."

One nagging question is why SDI's earnings per share have remained stubbornly unchanged over the last decade.

CFO John Slaviero says investors should see the benefit of higher sales flowing through "in the next year or so" and we'll take that as a core promise.

Meanwhile, a new generation of narcissists almost guarantees growth in SDI's targeted aesthetics and whitening sectors.

The pandemic Zoom Boom might have abated, but folk are still demanding the perfect smile.

***Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. Thanks to a childhood addiction to Fruit Tingles, he has so many cavities that his dentist is re-filling his old fillings.***