

# Sirona – The Dental Company

Fourth Quarter 2014 Earnings Presentation  
November 21, 2014



# Fourth Quarter 2014 Earnings Presentation Safe Harbor Statement / Additional Information



This conference call contains forward-looking information about Sirona Dental Systems, Inc.'s financial results, guidance and estimates, business prospects, and products and services that involve substantial risks and uncertainties or other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. You can identify these statements by the use of words such as "may," "could," "estimate," "will," "believe," "anticipate," "think," "intend," "expect," "project," "plan," "target," "forecast", and similar words and expressions which identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are not guarantees of future performance and involve known and unknown risks and uncertainties, and other factors. Readers are cautioned not to place undue reliance on such statements, which speak only as of the date hereof. For a discussion of such risks, uncertainties and other matters that could cause actual results to differ materially, including risks relating to, among other factors, the market for dental product and services, pricing, future sales volume of the Company's products, the possibility of changing economic, market and competitive conditions, dependence on products, dependence on key personnel, technological developments, intense competition, market uncertainties, dependence on distributors, ability to manage growth, dependence on key suppliers, dependence on key members of management, government regulation, acquisitions and affiliations, readers are urged to carefully review and consider various disclosures made by the Company in its Annual Report on Form 10-K and in its reports on Forms 10-Q and 8-K filed with the U.S. Securities and Exchange Commission, which can be accessed through the SEC's website, [www.sec.gov](http://www.sec.gov). This presentation contains non GAAP financial measures, which should not be viewed in isolation and do not purport to be an alternative to net income (loss) as an indicator of operating performance or an alternative to cash flows from operating activities as a measure of liquidity. The Company assumes no obligation to and expressly disclaims any obligation to update or revise any forward-looking statements contained in this document to reflect new information or future events or developments after the date any such statement is made.



- FY14 revenue growth of 3.9% on a constant currency basis and 6.4% on a local currency basis
  - Instruments up 12.3%, cc and up 15.4% local currency
  - Imaging up 4.0%, cc and up 5.7% local currency
  - Treatment Centers up 3.4%, cc and up 5.9% local currency
  - CAD/CAM up 1.9%, cc and up 5.0% local currency
- Strong local currency growth driven by international markets
  - International markets grew 3.6% cc, but 7.1% lc
  - Excluding Germany, international markets grew 5.7% cc and 10.5% lc
  - Germany was down 2.5% cc, against a difficult comparable. In fiscal 2013, Germany grew 23.4% cc.
  - U.S. revenues grew 4.7% against a difficult comparable of 18.2% growth.



- Continued our commitment to innovations, with the introduction of key new products:
  - INTEGEO – Economy segment Treatment Center
  - inLab MC X5 – Open 5-axis mill for dental labs
  - Series of product enhancements in Instruments
  - CEREC 4.3 software
  - Sicat Function software
  
- Non-GAAP adjusted EPS of \$3.67, representing 7.8% EPS growth
- Free Cash Flow of \$166.8 million, representing 95% of GAAP Net Income attributable to Sirona Dental Systems, Inc.
- At September 30, 2014, balance sheet with net cash of \$303.3 million



- 4Q14 constant currency revenue growth of 4.0%, with local currency growth of 4.2%:
  - Treatment Centers up 28.0%, cc and up 27.8% local currency
  - Instruments up 12.6%, cc and up 14.5% local currency
  - Imaging down 0.3%, cc and down 0.3% local currency
  - CAD/CAM down 5.1%, cc and down 4.9% local currency
- Revenue growth was driven by robust growth in Germany.
  - Total International revenues were up 8.8% cc and up 9.1% lc.
  - U.S. revenues were down 8.3%

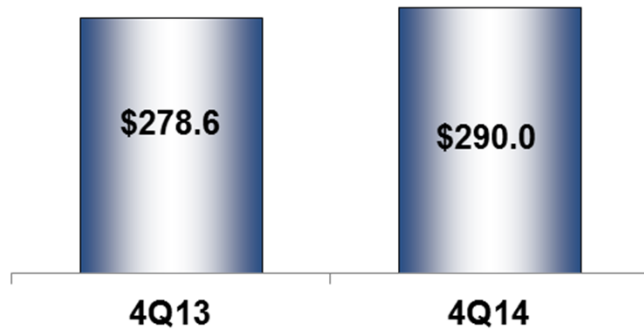
# Fourth Quarter 2014 Earnings Presentation Overview



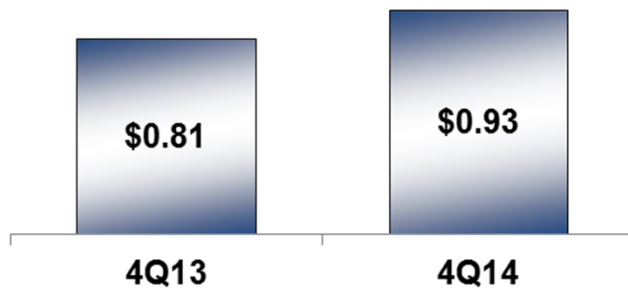
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## Revenue

(US\$ in millions)



## Non-GAAP adjusted EPS\* (US\$)



- Revenues of \$290.0 million, up 4.0% constant currency and 4.2% local currency.
- United States revenues decreased 8.3%. As expected, U.S. revenues were impacted by late orders in the third quarter. New user demand for both Imaging and CAD/CAM remains robust, but could not compensate for a large trade-up program in the fourth quarter of last year.
- International revenues were up 8.8% constant currency and up 9.1% on a local currency basis. Sales growth in international markets was particularly strong in Germany and Asia Pacific.
- Non-GAAP adjusted EPS increased 14.3% to \$0.93.

\*Non-GAAP adjusted EPS is a non-GAAP financial measure that excludes certain items. Please refer to "Reconciliation of GAAP EPS to Non-GAAP adjusted EPS" and "Non-GAAP Measures Disclosure" at the end of the presentation.

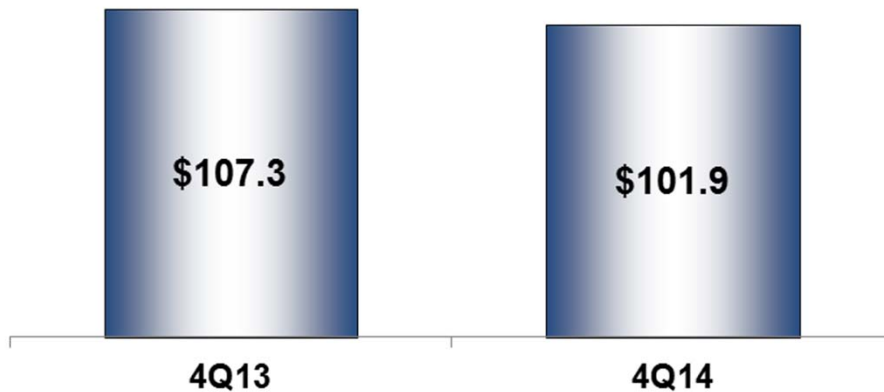
# Fourth Quarter 2014 Earnings Presentation

## CAD/CAM Segment



### CAD/CAM Revenue

(US\$ in millions)

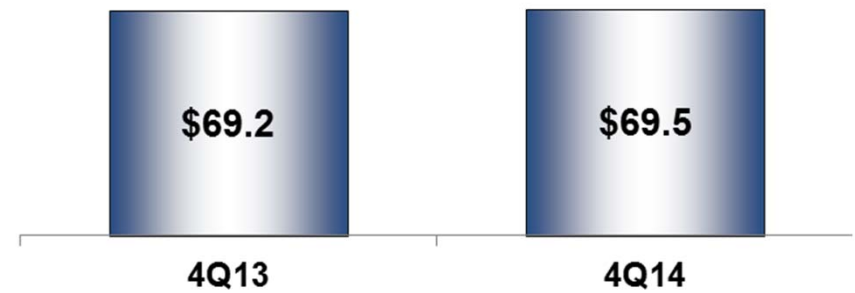


### Revenue Growth

Reported	- 5.0%
<u>Currency (Euro/\$)</u>	<u>- 0.1%</u>
Constant Currency	- 5.1%

### Segment Gross Profit

(US\$ in millions)



### Segment Gross Profit Margin

4Q13	64.5%
<u>4Q14</u>	<u>68.2%</u>
Change	+370 bps

## Fourth Quarter 2014 Earnings Presentation CAD/CAM Segment



- Revenues of \$101.9 million, down 5.1% cc and 4.9% local currency.
- New-user demand was robust but could not offset last year's extensive trade-up program, particularly in the U.S. and Germany. In Q4 2013, CAD/CAM grew 37.4% in local currency.
- CAD/CAM segment gross profit margin of 68.2% - up 370 bps from last year. Margin improvement was driven by product and regional mix, including lower trade-ups.



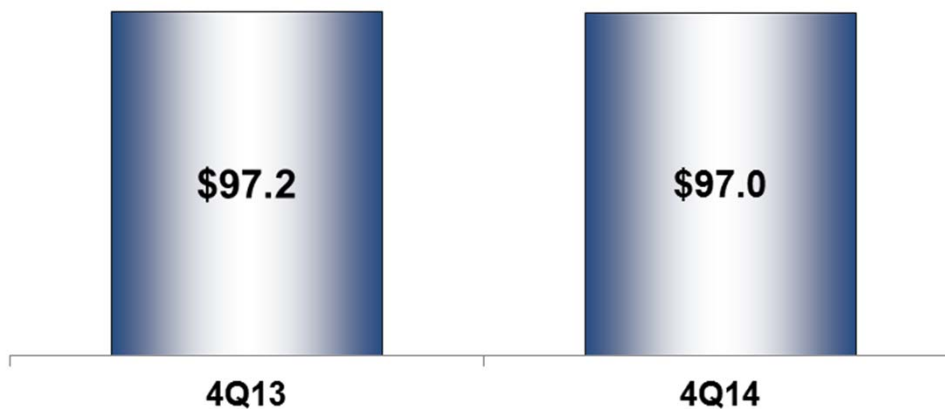


# Fourth Quarter 2014 Earnings Presentation Imaging Segment



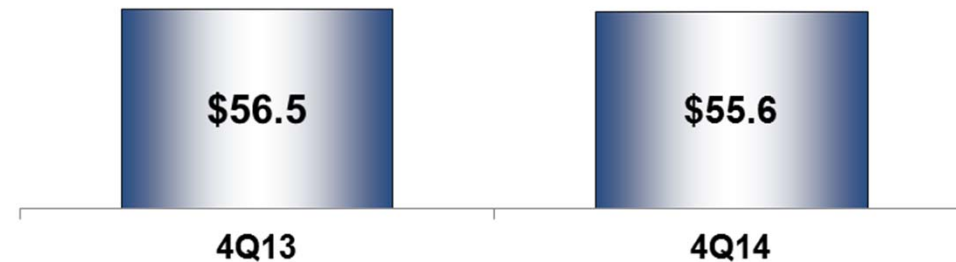
## Imaging Revenue

(US\$ in millions)



## Segment Gross Profit

(US\$ in millions)



### Revenue Growth

Reported	- 0.2%
<u>Currency (Euro/\$)</u>	<u>- 0.1%</u>
Constant Currency	- 0.3%

### Segment Gross Profit Margin

4Q13	58.1%
<u>4Q14</u>	<u>57.3%</u>
Change	- 80 bps

# Fourth Quarter 2014 Earnings Presentation Imaging Segment

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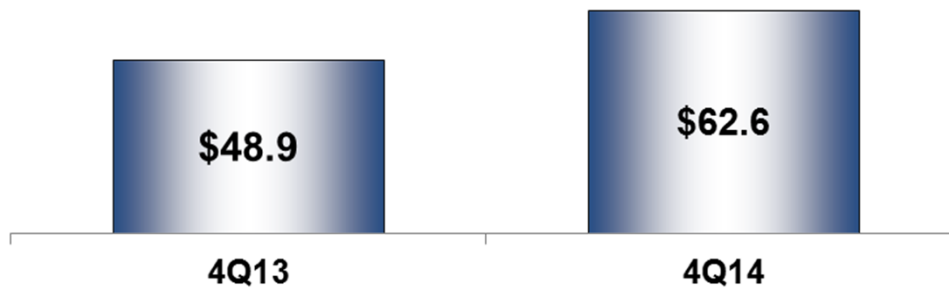


- Revenues of \$97.0 million, down 0.3% cc and on a local currency basis.
- Sales growth was impacted by the timing of orders in the U.S. and tough comparables in certain international markets. We continue to see a greater focus on 3D in the market.
- Gross profit margin decreased 80 bps mainly due to product and regional mix.

# Fourth Quarter 2014 Earnings Presentation Treatment Centers



## Treatment Center Revenue (US\$ in millions)



## Segment Gross Profit (US\$ in millions)



### Revenue Growth

Reported	+ 28.2%
Currency (Euro/\$)	- 0.2%
Constant currency	+ 28.0%

### Segment Gross Profit Margin

4Q13	34.1%
4Q14	43.2%
Change	+910 bps

# Fourth Quarter 2014 Earnings Presentation Treatment Centers



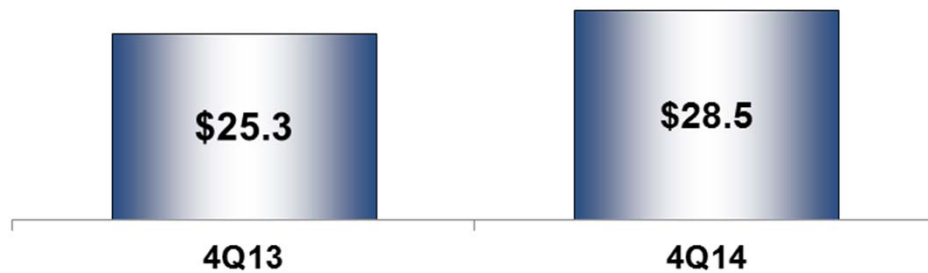
- Record segment revenues of \$62.6 million, up 28.0% cc and up 27.8% in local currency.
- Treatment Centers benefited from strong demand for our TENEO and SINIUS product lines as part of a trade-in program in Germany. The roll-out of our new economy product (INTEGO), continues as planned.
- Gross profit margin increased 910 basis points driven by an improved product mix and cost reductions.

# Fourth Quarter 2014 Earnings Presentation Instruments



## Instruments Revenue

(US\$ in millions)



## Segment Gross Profit

(US\$ in millions)



## Revenue Growth

Reported	+12.8%
<u>Currency (Euro/\$)</u>	<u>- 0.2%</u>
Constant Currency	+12.6%

## Segment Gross Profit Margin

4Q13	37.5%
<u>4Q14</u>	<u>47.4%</u>
Change	+990 bps

# Fourth Quarter 2014 Earnings Presentation Instruments



- Revenues of \$28.5 million, up 12.6% cc and 14.5% in local currency.
- Revenue growth was driven by strong demand for our high-end handpieces and hygiene products.
- The gross profit margin increase was driven by a very favorable product mix and better productivity.

# Fourth Quarter 2014 Earnings Presentation

## Operating Performance



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	\$'000s		% chg.
	4Q14	4Q13	
<b>Revenue</b>	\$ 290.0	\$ 278.6	4%
Cost of sales	130.1	135.3	(4)%
<b>Gross profit</b>	<b>159.9</b>	<b>143.3</b>	<b>12%</b>
<i>Gross Margin %</i>	55.1%	51.4%	
Selling, general and administrative expense	87.6	83.3	5%
Research and development	16.5	14.6	13%
Other operating income items (net)	(2.5)	(2.5)	
<b>Operating income</b>	<b>58.3</b>	<b>47.9</b>	<b>22%</b>
(Gain)/loss on foreign currency transactions, net	1.9	1.8	
(Gain)/loss on derivative instruments	1.1	(0.7)	
Interest expense, net	0.5	0.8	(39)%
Other expense/(income)	0.5	(1.2)	
<b>Income before taxes</b>	<b>54.3</b>	<b>47.2</b>	<b>15%</b>
Income tax provision	11.6	10.7	
Net income	42.7	36.5	17%
Less: Net income attrib. to noncontrolling interests	-	0.2	
<b>Net income attributable to Sirona Dental Systems, Inc.</b>	<b>\$ 42.7</b>	<b>\$ 36.2</b>	
<b>GAAP EPS (diluted)</b>	<b>0.76</b>	<b>0.64</b>	<b>18%</b>



## Guidance

- Revenue growth of 6% to 8% in local currency
- Non-GAAP Adjusted EPS in the range of \$3.95 to \$4.05

### Key inputs at current exchange rates

- Segment gross profit margin overall similar to prior year's level
- Reported gross profit margin expected to improve
- SG&A targeted at ~29% of sales
- R&D to be between 5% to 6% of sales
- Tax rate expected to be ~23%



# Fourth Quarter 2014 Earnings Presentation Conclusion



- Solid business momentum continues.
  - Commitment to innovation with key new product launches at the March International Dental Show in Cologne, Germany.
  - Comprehensive, market leading product portfolio
  - World class global sales and service infrastructure
  - Broad geographic diversification
  - Best-in-class distribution network
  - Strong financial position
- Sirona well positioned to grow profitably in 2015 and beyond.

## Reconciliation of GAAP EPS to Non-GAAP Adjusted EPS

Non-GAAP Financial Measures (GAAP reconciliation)	Three months ended			Per Diluted Share
	September 30, 2014			
<i>(In millions, except for per share and percent amounts)</i>	Pre Tax	Tax Impact*	After Tax	
<b>GAAP net income attributable to Sirona Dental Systems, Inc. shareholders</b>			\$ 42.7	\$ 0.76
<b>Adjustments</b>				
Amortization and depreciation expense resulting from the step-up to fair values of intangible assets related to past business combinations	\$ 8.6	\$ 1.8	6.8	
(Gain) loss on foreign currency transactions, net	1.9	0.4	1.5	
(Gain) loss on derivative instruments	1.1	0.2	0.9	
Other items:				
Non-cash remeasurement of deferred tax assets and liabilities due to an increase in German trade tax rate	-	-	-	
Compensation charge for expenses in connection with the CFO Transition	0.4	0.1	0.3	
One-time gain on sale of certain operating assets	-	0.0	(0.1)	
<b>Non-GAAP adjusted net income attributable to Sirona Dental Systems, Inc. shareholders</b>			\$ 52.1	\$ 0.93
<i>* tax impact calculated using estimated effective tax rate of 21.8%</i>				

# Reconciliation of GAAP to Non-GAAP Adjusted EPS Guidance



Financial Guidance (Non-GAAP Adjusted Earnings per Share)	Low End of Guidance			Per Diluted Share
	Pre-Tax	Tax Impact	After Tax	
<i>(In millions, except for per share amounts)</i>				
<b>GAAP net income attributable to Sirona Dental Systems, Inc. shareholders</b>			\$ 195	\$ 3.49
<b>Adjustments</b>				
Amortization and depreciation expense resulting from the step-up to fair values of intangible assets related to past business combinations	\$ 32	\$ 7	\$ 25	
(Gain)/loss on foreign currency transactions, net **	-	-	-	
(Gain)/loss on derivative instruments, net **	-	-	-	
Other items	2	1	1	
<b>Non-GAAP adjusted net income attributable to Sirona Dental Systems, Inc. shareholders</b>			\$ 221	\$ 3.95

Financial Guidance (Non-GAAP Adjusted Earnings per Share)	High End of Guidance			Per Diluted Share
	Pre-Tax	Tax Impact	After Tax	
<i>(In millions, except for per share amounts)</i>				
<b>GAAP net income attributable to Sirona Dental Systems, Inc. shareholders</b>			\$ 201	\$ 3.59
<b>Adjustments</b>				
Amortization and depreciation expense resulting from the step-up to fair values of intangible assets related to past business combinations	\$ 32	\$ 7	\$ 25	
(Gain)/loss on foreign currency transactions, net **	-	-	-	
(Gain)/loss on derivative instruments, net **	-	-	-	
Other items	2	1	1	
<b>Non-GAAP adjusted net income attributable to Sirona Dental Systems, Inc. shareholders</b>			\$ 227	\$ 4.05

\*\* We do not predict future exchange rate developments in our guidance.

# Non-GAAP Measures Disclosure



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To supplement our consolidated financial statements and our business outlook, we use the following non-GAAP financial measures: (i) non-GAAP adjusted net income, and (ii) non-GAAP adjusted earnings per diluted share, which exclude, as applicable, amortization and depreciation expense resulting from the step-up to fair values of intangible and tangible assets related to past business combinations, gain/loss on foreign currency transactions, gain/loss on derivative instruments and any related tax effects. Also set forth above under the heading "FORWARD-LOOKING" are reconciliations of forward-looking non-GAAP financial measures to the most directly comparable GAAP financial measures.

Management recognizes that the use of these non-GAAP measures has limitations, including the fact that they might not be comparable with similar non-GAAP measures used by other companies and that management must exercise judgment in determining which types of charges and other items should be excluded from its non-GAAP financial measures. Management currently compensates for these limitations by providing full disclosure of each non-GAAP financial measure and a reconciliation to the most directly comparable GAAP measure. The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP.

We use these non-GAAP financial measures for financial and operational decision making and as a means to evaluate period-to-period comparisons. Our management believes that these non-GAAP financial measures provide meaningful supplemental information regarding our "core operating performance". Management believes that "core operating performance" represents Sirona's operating performance in the ordinary, ongoing and customary course of its operations. Accordingly, management excludes from "core operating performance" the impact of acquisition-related intangible depreciation and amortization in order to compare our underlying financial performance to prior periods, certain charges related to currency revaluation of assets and liabilities that do not reflect our period-to-period core operating performance, and to the extent relevant in a particular period, any other cash or non-cash items that management does not view as indicative of its on-going operating performance. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting and analyzing future periods. These non-GAAP financial measures also facilitate management's internal evaluation of period-to-period comparisons. We believe these non-GAAP financial measures are useful to investors both because (1) they allow for greater transparency with respect to key metrics used by management in its financial and operational decision making and (2) they are provided to and used by our institutional investors and the analyst community to facilitate comparisons with prior and subsequent reporting periods.

**Constant Currency:** We have included certain revenue information on a constant currency basis. This information is a non-GAAP financial measure. We additionally present revenue on a constant currency basis because we believe it facilitates a comparison of our operating results from period to period without regard to many changes resulting solely from fluctuations in currency rates.

Sirona calculates constant currency revenue growth by comparing current period revenues to prior period revenues with both periods converted at only the U.S. Dollar/Euro average foreign exchange rate for each month of the current period. The average exchange rate for the three months ended September 30, 2014, was \$1.32680 and varied from \$1.32680 to \$ 1.35510. For the three months ended September 30, 2013, an average exchange rate converting Euro denominated revenues into U.S. Dollars of \$ 1.32470 was applied. Currently, our constant currency calculation does not adjust for fluctuations in any other currency.

**Local Currency:** We have also included certain revenue information on a local currency basis. This information is a non-GAAP financial measure. We additionally present revenue on a local currency basis because we believe it facilitates a comparison of our operating results from period to period without regard to many changes resulting solely from fluctuations in currency rates.

Sirona also calculates local currency revenue growth by comparing current period revenues to prior period revenues with all currencies for both periods converted at the prior period monthly exchange rates.