

# Sirona – The Dental Company

Fourth Quarter 2013 Earnings Presentation  
November 22, 2013



# Fourth Quarter 2013 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.



- FY13 constant currency revenue growth of 11.7%, with:
  - CAD/CAM up 21.6%, cc
  - Imaging up 9.5%, cc
  - Treatment Centers up 5.8%, cc
  - Instruments flat, cc
- Exceptional growth from our two largest countries:
  - U.S. revenues grew 18.2%
  - Germany grew 23.4% cc
- International revenues grew 9.1% cc



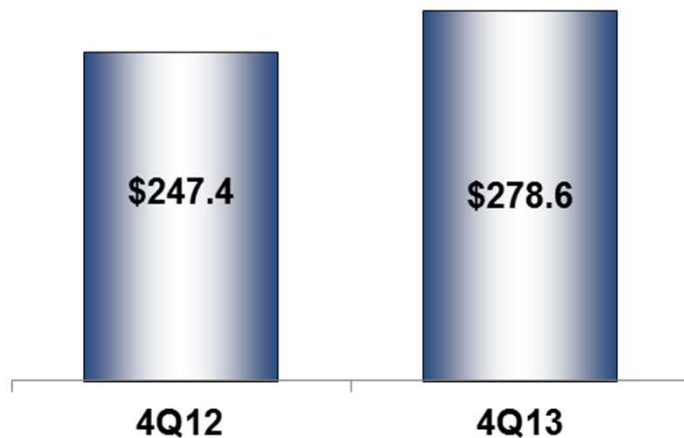
- Record number of new products introduced, including our “CAD/CAM for Everyone” product suite
- Non-GAAP adjusted EPS of \$3.41, representing 12.4% EPS growth
- Operating Cash Flow of \$232.0 million
- Free Cash Flow of \$161.3 million
- Continuation of share repurchase program and authorization of an additional \$100 million program. Total buyback activity of \$112 million, with \$43 million completed in FY13.
- At September 30, 2013, balance sheet fully de-levered with net cash of \$166.3 million

# Fourth Quarter 2013 Earnings Presentation Overview

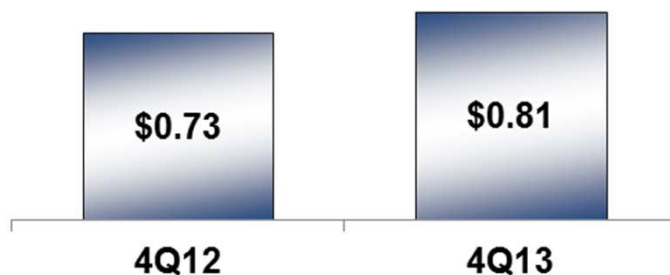


## Revenue

(US\$ in millions)



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



- Record revenues of \$278.6 million, up 12.6% compared to prior year, or up 8.3% constant currency, with a record quarter in CAD/CAM.
- United States revenues increased 2.8% on top of last year's 34.1% growth. Q4 2012 was the first full quarter to benefit from the expanded exclusivity with Patterson and saw increased demand from the CEREC 27.5 event.
- International revenues were strong, up 17.0%, or up 10.6% cc, led by Germany and CAD/CAM and Imaging.
- Non-GAAP adjusted EPS increased 11% to \$0.81.

\*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.

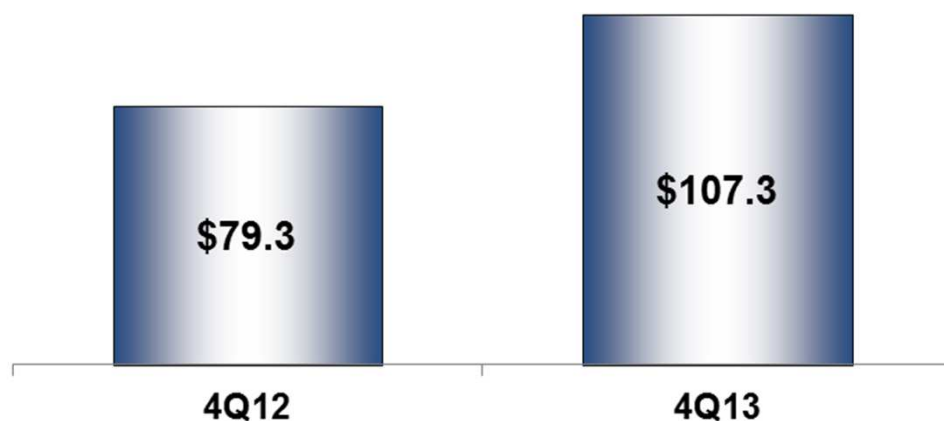
# Fourth Quarter 2013 Earnings Presentation

## CAD/CAM Segment



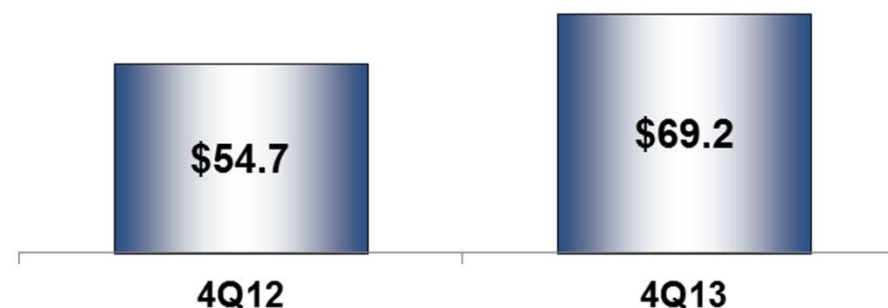
### CAD/CAM Revenue

(US\$ in millions)



### Segment Gross Profit

(US\$ in millions)



### Revenue Growth

Reported	+35.2%
<u>Currency</u>	<u>- 4.9%</u>
Constant Currency	+30.3%

### Segment Gross Profit Margin

4Q12	68.9%
<u>4Q13</u>	<u>64.5%</u>
Change	-440 bps

# Fourth Quarter 2013 Earnings Presentation

## CAD/CAM Segment



- Record segment revenues of \$107.3 million, up 35.2%, or up 30.3% cc.
- CAD/CAM segment revenues benefited from trade-up programs and new user sales.
- CAD/CAM segment gross profit margin decreased 440 bps to 64.5%. The decrease was primarily a result of the ratio of trade-up units of total sales and product mix.

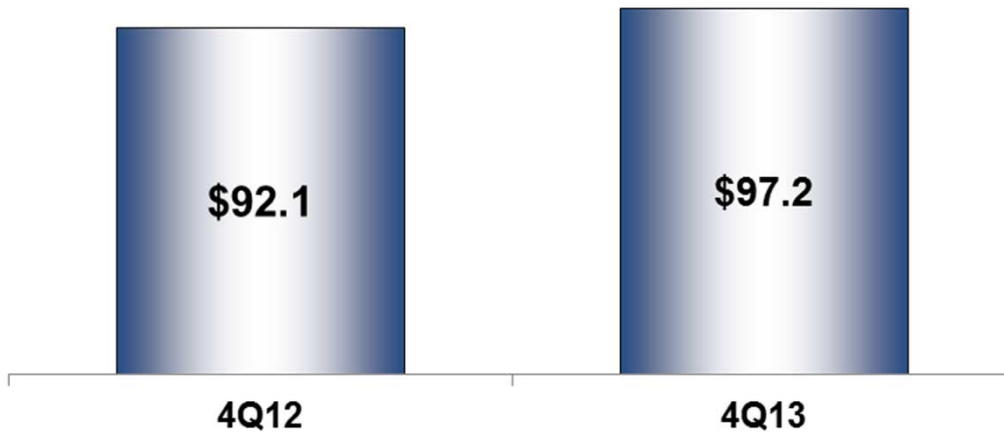
# Fourth Quarter 2013 Earnings Presentation

## Imaging Segment



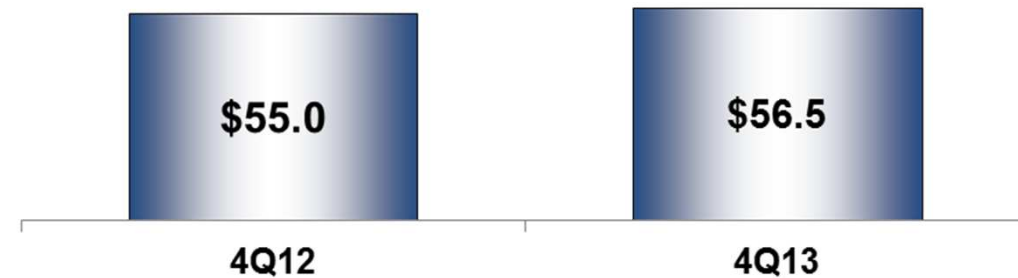
### Imaging Revenue

(US\$ in millions)



### Segment Gross Profit

(US\$ in millions)



#### Revenue Growth

Reported	+5.5%
<u>Currency</u>	<u>- 2.8%</u>
Constant Currency	+2.7%

#### Segment Gross Profit Margin

4Q12	59.7%
<u>4Q13</u>	<u>58.1%</u>
Change	-160 bps



# Fourth Quarter 2013 Earnings Presentation Imaging Segment



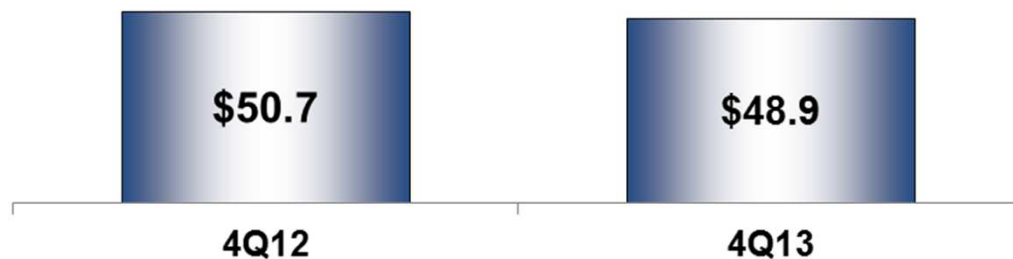
- Segment revenues of \$97.2 million, up 5.5%, or up 2.7% cc, against last year's 14.0% cc growth.
- Sales growth was driven by broad strength outside the U.S. The U.S. faced a very difficult comparable. Last year, U.S. imaging was very strong due to sales at the CEREC 27.5 event.
- Gross profit margin decreased 160 bps mainly due to product mix.

# Fourth Quarter 2013 Earnings Presentation Treatment Centers



## Treatment Center Revenue

(US\$ in millions)



## Segment Gross Profit

(US\$ in millions)



### Revenue Growth

Reported	- 3.6%
<u>Currency</u>	<u>- 5.3%</u>
Constant currency	- 8.9%

### Segment Gross Profit Margin

4Q12	40.1%
<u>4Q13</u>	<u>34.1%</u>
Change	-600 bps

# Fourth Quarter 2013 Earnings Presentation Treatment Centers



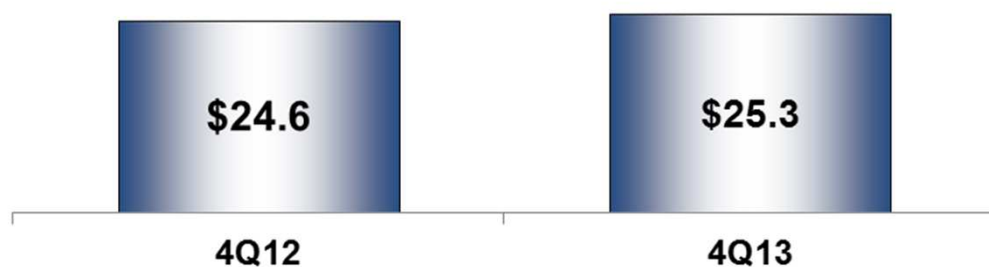
- Revenues of \$48.9 million, down 3.6%, and down 8.9% cc, due to a challenging comparable. Last year's Q4 Treatment Centers grew 28.0% cc.
- Gross profit margin decreased 600 bps mainly due to product and regional mix and FX impacts.

# Fourth Quarter 2013 Earnings Presentation Instruments



## Instruments Revenue

(US\$ in millions)



## Segment Gross Profit

(US\$ in millions)



### Revenue Growth

Reported	+3.0%
<u>Currency</u>	<u>- 5.6%</u>
Constant Currency	- 2.6%

### Segment Gross Profit Margin

4Q12	45.4%
<u>4Q13</u>	<u>37.5%</u>
Change	-790 bps

# Fourth Quarter 2013 Earnings Presentation Instruments



- Revenues of \$25.3 million, up 3.0%, but down 2.6% cc. Revenue growth was impacted by unfavorable product mix.
- Margin contraction mainly due to unfavorable product mix and costs associated with the ramp up of the new instrument manufacturing facility.

# Fourth Quarter 2013 Earnings Presentation

## Operating Performance



	<u>4Q13</u>	<u>4Q12</u>	<i>% chg.</i>
<b>Revenue</b>	<b>\$ 278,604</b>	<b>\$ 247,364</b>	<b>12.6%</b>
Cost of sales	135,313	115,285	17.4%
<b>Gross profit</b>	<b>143,291</b>	<b>132,079</b>	<b>8.5%</b>
Selling, general and administrative expense	83,372	76,912	8.4%
Research and development	14,649	12,606	16.2%
Other operating income items (net)	(2,652)	(2,838)	
<b>Operating income</b>	<b>47,922</b>	<b>45,399</b>	<b>5.6%</b>
(Gain)/loss on foreign currency transactions, net	1,848	(382)	
(Gain)/loss on derivative instruments	(738)	(2,147)	
Interest expense, net	822	984	(16.5)%
Other expense/(income)	(1,227)	(529)	
<b>Income before taxes</b>	<b>47,217</b>	<b>47,473</b>	<b>(0.5)%</b>
Income tax provision	10,741	12,622	
Net income	36,476	34,851	4.7%
Less: Net income attrib. to noncontrolling interests	241	115	
<b>Net income attributable to Sirona Dental Systems, Inc.</b>	<b>\$ 36,235</b>	<b>\$ 34,736</b>	<b>4.3%</b>



- Solid business momentum continues.
  - Commitment to innovation
  - Comprehensive, market leading product portfolio
  - Global sales and service infrastructure
  - Geographic diversification
  - Best-in-class distribution network
  - Strong financial position
  - Completed leadership transition
- Sirona well positioned to grow profitably in 2014 and beyond.



The Dental

# Reconciliation of GAAP EPS to Non-GAAP Adjusted EPS

Twelve months ended September 30, 2013

**GAAP net income attributable to Sirona Dental Systems, Inc. shareholders**

**Adjustments**

Amortization and depreciation expense resulting from the step-up to fair values of intangible assets related to past business combinations

(Gain)/loss on foreign currency transactions, net

(Gain)/loss on derivative instruments

Other items:

Non-cash remeasurement of deferred tax assets and liabilities due to an increase in German trade tax rate

Non-cash compensation charge for the revaluation of share based compensation in connection with the Transition Agreement for the departing CEO and Chairman

**Non-GAAP adjusted net income attributable to Sirona Dental Systems, Inc. shareholders**

	Pre Tax	Tax Impact*	After Tax	Per Diluted Share
	\$'000s, except per share amount			
			\$ 146,745	\$ 2.61
	\$ 40,212	\$ 9,530	30,682	
	12,355	2,928	9,427	
	(421)	(100)	(321)	
			-	
	2,196	-	2,196	
	3,764	892	2,872	
			<u>\$ 191,600</u>	<u>\$ 3.41</u>

\* tax impact calculated using estimated effective tax rate of 23.7%





# Reconciliation of GAAP EPS to Non-GAAP Adjusted EPS

Three months ended September 30, 2013

	Pre Tax	Tax Impact*	After Tax	Per Diluted Share
	\$'000s, except per share amount			
<b>GAAP net income attributable to Sirona Dental Systems, Inc. shareholders</b>			\$ 36,235	\$ 0.65
<b>Adjustments</b>				
Amortization and depreciation expense resulting from the step-up to fair values of intangible assets related to past business combinations	\$ 10,457	\$ 2,378	8,079	
(Gain)/loss on foreign currency transactions, net	1,848	406	1,442	
(Gain)/loss on derivative instruments	(738)	(176)	(562)	
<b>Non-GAAP adjusted net income attributable to Sirona Dental Systems, Inc. shareholders</b>			<b>\$ 45,193</b>	<b>\$ 0.81</b>

\* tax impact calculated using estimated effective tax rate of 22.5%

# Non-GAAP Measures Disclosure



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 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 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, 2013, was \$1.35. The average exchange rate for the fiscal year ended September 30, 2013 was \$1.31 and varied from \$1.28 to \$1.34. For the three months and full year ended September 30, 2012, an average exchange rate converting Euro denominated revenues into U.S. Dollars of \$1.25 and \$1.30, respectively, was applied.