

# Sirona – The Dental Company

Second Quarter 2014 Earnings Presentation  
May 9, 2014



# Second 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.



- 2Q14 constant currency revenue growth of 2.9%, with local currency growth of 6.9%:
  - Instruments up 9.3%, cc and up 12.9% local currency
  - Imaging up 2.8%, cc and up 6.0% local currency
  - CAD/CAM up 2.5%, cc and up 7.6% local currency
  - Treatment Centers up 0.8%, cc and up 4.1% local currency
- Revenue growth was driven by the U.S. and Asia-Pacific, led by Japan.
  - U.S. revenues grew 4.5%.
  - Total International revenues grew 2.3% cc, and grew 7.7% lc.
  - Germany was down against a difficult comparable. In fiscal 2013, Germany grew 23.4% cc.

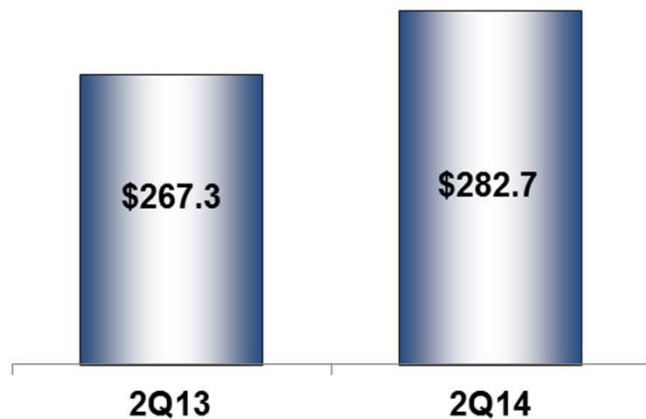
# Second Quarter 2014 Earnings Presentation Overview



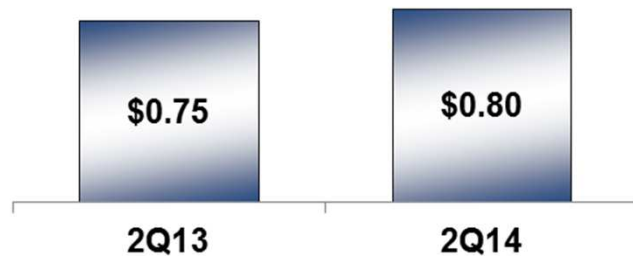
The Dental Company

## Revenue

(US\$ in millions)



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



- Revenues of \$282.7 million, up 5.7% compared to prior year, or up 2.9% constant currency and 6.9% local currency. Record quarters in CAD/CAM and Treatment Centers.
- United States revenues increased 4.5%. Growth in the U.S. was driven by CAD/CAM.
- International revenues were up 6.2%, or up 2.3% cc and 7.7% on a local currency basis. International growth was driven by Asia Pacific, led by Japan.
- Non-GAAP adjusted EPS increased 6.3% to \$0.80.

\*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.

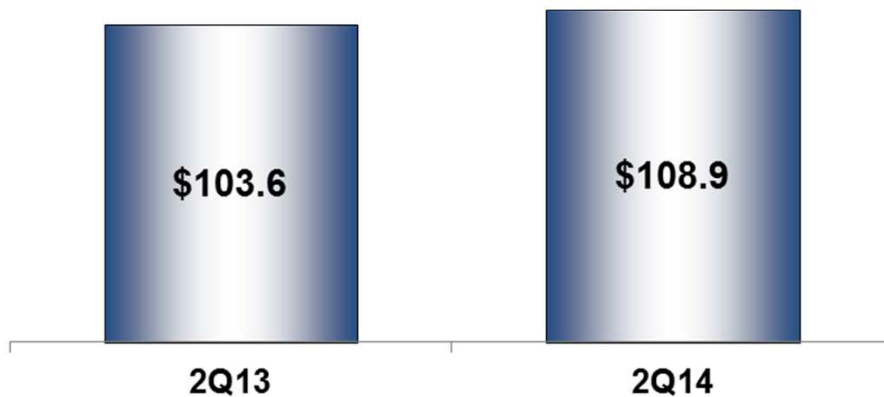
# Second Quarter 2014 Earnings Presentation

## CAD/CAM Segment



### CAD/CAM Revenue

(US\$ in millions)

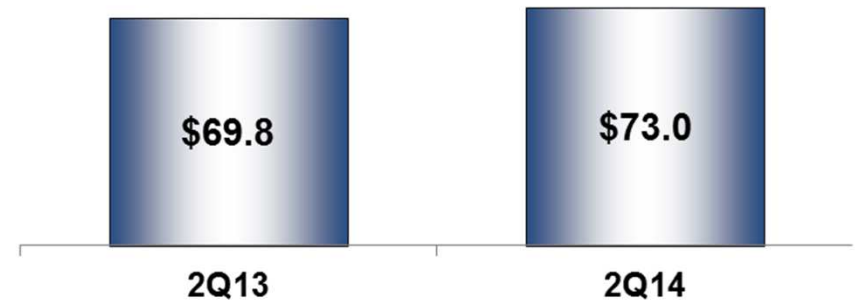


### Revenue Growth

Reported	+5.0%
<u>Currency (Euro/\$)</u>	<u>- 2.5%</u>
Constant Currency	+2.5%

### Segment Gross Profit

(US\$ in millions)



### Segment Gross Profit Margin

2Q13	67.4%
<u>2Q14</u>	<u>67.0%</u>
Change	-40 bps

## Second Quarter 2014 Earnings Presentation CAD/CAM Segment



- Record revenues of \$108.9 million, up 5.0% (or up 2.5% cc and 7.6% local currency).
- CAD/CAM segment revenue growth was driven by new users in the U.S. and Japan.
- CAD/CAM segment gross profit margin down 40 bps from last year, driven by unfavorable foreign exchange impacts only partially offset by channel and product mix improvements.

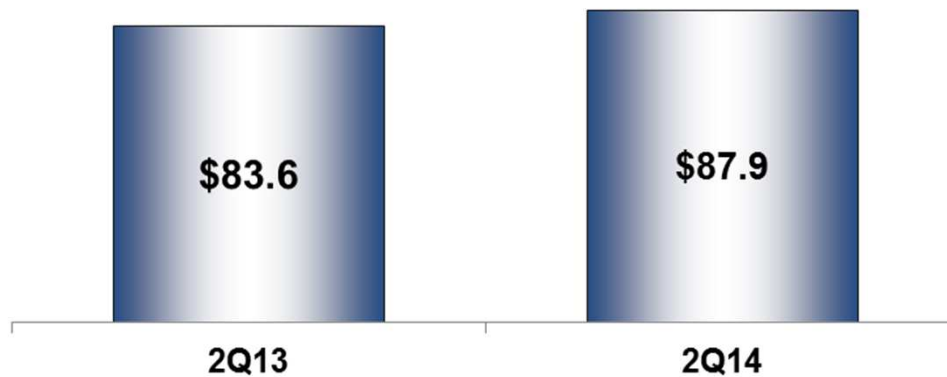


# Second Quarter 2014 Earnings Presentation Imaging Segment



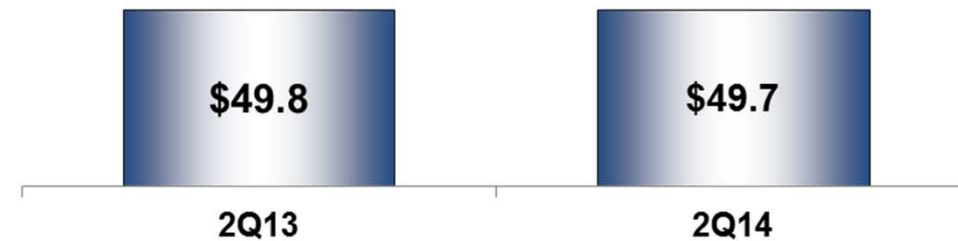
## Imaging Revenue

(US\$ in millions)



## Segment Gross Profit

(US\$ in millions)



### Revenue Growth

Reported	+5.0%
<u>Currency (Euro/\$)</u>	<u>- 2.2%</u>
Constant Currency	+2.8%

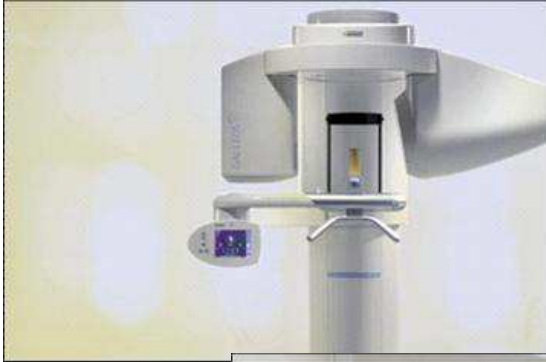
### Segment Gross Profit Margin

2Q13	59.5%
<u>2Q14</u>	<u>56.6%</u>
Change	-290 bps

# Second Quarter 2014 Earnings Presentation Imaging Segment

**sirona.**

The Dental Company



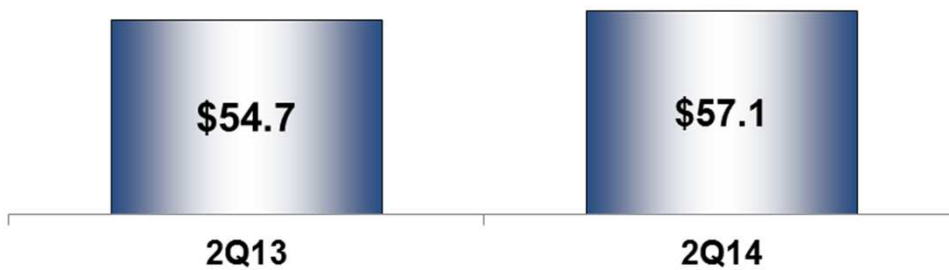
- Segment revenues of \$87.9 million, up 5.0%, or up 2.8% cc and up 6.0% on a local currency basis.
- Sales growth was driven by strength in intra-oral and the Orthophos XG product line.
- Gross profit margin decreased 290 bps impacted by targeted promotions and price concessions, as well as unfavorable foreign exchange.



# Second Quarter 2014 Earnings Presentation Treatment Centers



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



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



### Revenue Growth

Reported	+4.6%
<u>Currency (Euro/\$)</u>	<u>- 3.8%</u>
Constant currency	+0.8%

### Segment Gross Profit Margin

2Q13	40.2%
<u>2Q14</u>	<u>41.2%</u>
Change	+100 bps

## Second Quarter 2014 Earnings Presentation Treatment Centers



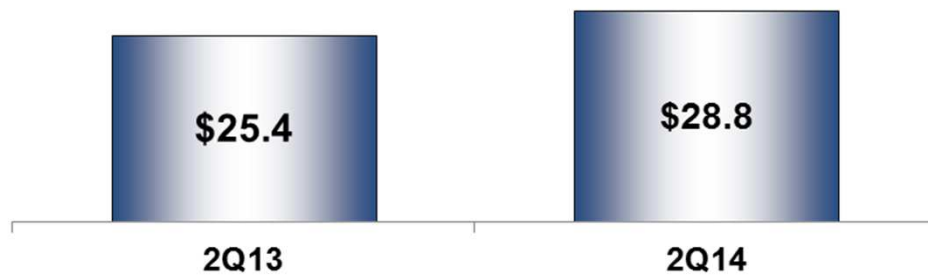
- Record revenues of \$57.1 million, up 4.6%, and up 0.8% cc and 4.1% on a local currency basis.
- Treatment Centers faced a challenging year-over-year comparison due to strong revenues from the last-edition program for our successful M1+ unit in the prior year and the IDS in Germany.
- Gross profit margin increased 100 bps. The increase was due to improved regional and product mix, more than offsetting unfavorable foreign exchange.

# Second Quarter 2014 Earnings Presentation Instruments



## Instruments Revenue

(US\$ in millions)



## Segment Gross Profit

(US\$ in millions)



## Revenue Growth

Reported	+13.4%
<u>Currency (Euro/\$)</u>	<u>- 4.1%</u>
Constant Currency	+9.3%

## Segment Gross Profit Margin

2Q13	42.4%
<u>2Q14</u>	<u>38.7%</u>
Change	-370 bps

## Second Quarter 2014 Earnings Presentation Instruments



- Revenues of \$28.8 million, up 13.4%, or up 9.3% cc and 12.9% on a local currency basis.
- Revenue growth was driven by project business and growth in Germany and Japan.
- The gross profit margin decrease was due to foreign exchange, product mix and inefficiencies associated with the ramp up of our new manufacturing facility.



## Guidance

- Constant currency revenue growth of 4% to 6%
- Non-GAAP Adjusted EPS in the range of \$3.60 to \$3.70

## Key Inputs

- Segment gross profit margin similar to prior year's level
- SG&A to be between 29% to 30% of sales
- R&D to be between 5% to 6% of sales
- Tax rate to be between 23% to 24%

# Second Quarter 2014 Earnings Presentation Conclusion



- 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.

# Second Quarter 2014 Earnings Presentation

## Operating Performance



The Dental Company

	\$'000s		
	2Q14	2Q13	% chg.
<b>Revenue</b>	\$ 282.7	\$ 267.3	6%
Cost of sales	131.2	122.6	7%
<b>Gross profit</b>	<b>151.5</b>	<b>144.7</b>	<b>5%</b>
Selling, general and administrative expense	87.2	84.5	3%
Research and development	16.4	15.1	9%
Other operating income items (net)	(2.5)	(2.5)	
<b>Operating income</b>	<b>50.4</b>	<b>47.6</b>	<b>6%</b>
(Gain)/loss on foreign currency transactions, net	(2.0)	1.4	
(Gain)/loss on derivative instruments	1.5	2.5	
Interest expense, net	0.9	0.8	13%
Other expense/(income)	0.4	0.4	
<b>Income before taxes</b>	<b>49.6</b>	<b>42.5</b>	<b>17%</b>
Income tax provision	11.7	10.2	
Net income	37.9	32.3	17%
Less: Net income attrib. to noncontrolling interests	0.6	0.5	
<b>Net income attributable to Sirona Dental Systems, Inc.</b>	<b>\$ 37.3</b>	<b>\$ 31.8</b>	<b>17%</b>

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

	Three months ended March 31, 2014			Per Diluted Share
	Pre Tax	Tax Impact*	After Tax	
	\$ millions, except per share amount			
<b>GAAP net income attributable to Sirona Dental Systems, Inc. shareholders</b>			\$ 37.3	\$ 0.66
<b>Adjustments</b>				
Amortization and depreciation expense resulting from the step-up to fair values of intangible assets related to past business combinations	\$ 8.8	\$ 2.1	6.7	
(Gain)/loss on foreign currency transactions, net	(2.0)	(0.5)	(1.5)	
(Gain)/loss on derivative instruments	1.5	0.4	1.1	
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	1.6	0.4	1.2	
<b>Non-GAAP adjusted net income attributable to Sirona Dental Systems, Inc. shareholders</b>			<b>\$ 44.9</b>	<b>\$ 0.80</b>

\* tax impact calculated using estimated effective tax rate of 23.5%



# Reconciliation of GAAP to Non-GAAP Adjusted EPS Guidance



The Dental Company

	Low End of Guidance			Per Diluted Share
	Pre-Tax	Tax Impact	After Tax	
	\$ millions, except per share amount			
<b>GAAP net income attributable to Sirona Dental Systems, Inc. shareholders</b>			\$ 173	\$ 3.09
<b>Adjustments</b>				
Amortization and depreciation expense resulting from the step-up to fair values of intangible assets related to past business combinations	\$ 36	\$ 9	\$ 27	
(Gain)/loss on foreign currency transactions, net **	-	-	-	
(Gain)/loss on derivative instruments, net **	-	-	-	
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	3	1	2	
<b>Non-GAAP adjusted net income attributable to Sirona Dental Systems, Inc. shareholders</b>			\$ 202	\$ 3.60
	High End of Guidance			Per Diluted Share
	Pre-Tax	Tax Impact	After Tax	
	\$ millions, except per share amount			
<b>GAAP net income attributable to Sirona Dental Systems, Inc. shareholders</b>			\$ 178	\$ 3.18
<b>Adjustments</b>				
Amortization and depreciation expense resulting from the step-up to fair values of intangible assets related to past business combinations	\$ 36	\$ 9	\$ 27	
(Gain)/loss on foreign currency transactions, net **	-	-	-	
(Gain)/loss on derivative instruments, net **	-	-	-	
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	3	1	2	
<b>Non-GAAP adjusted net income attributable to Sirona Dental Systems, Inc. shareholders</b>			\$ 207	\$ 3.70

\*\* We are unable to provide estimates for these items because we are unable to predict the 2014 and long-term impact of foreign exchange due to unpredictability of future changes in foreign exchange rates.

# 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 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 March 31, 2014, was \$1.37040 and varied from \$1.34970 to \$ 1.38260. For the three months ended March 31, 2013, an average exchange rate converting Euro denominated revenues into U.S. Dollars of \$ 1.32086 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.