straumanngroup

2019 Full-year Report – Media Release

Straumann finishes 2019 with solid Q4, as full-year organic revenue climbs 17% and core EBIT margin expands to 27.1%

- Full-year revenue climbs 17% in Swiss francs (17% organic) to CHF 1.6 billion, driven by double-digit increases in all businesses.
- Organic growth also reaches 17% in Q4, as all regions post solid growth.
- Group achieves its objectives for improved profitability: core[1,2] EBITDA, EBIT and net profit margins reach 31.6%, 27.1% and 21.2% respectively (2018: 29.6%, 26.9% and 21.5%).
- Free cash flow rises to CHF 230 million (2018: CHF 169 million).
- Further strategic emphasis on digital and orthodontics; experienced talent recruited to head new dedicated business units
- Board proposes further dividend increase to CHF 5.75 per share (2018: CHF 5.25).

KEY FIGURES rounded						
in CHF million	2019 FY[1]			2018 FY		
	IFRS	Before excep.[2]	CORE[2]	IFRS	Before excep.[2]	CORE[2]
Revenue	**1596**	**1596**	**1596**	**1364**	**1364**	**1364**
Change			17.1%			
Change without FX			19.6%			
Change organic			17.1%			
Gross profit	**1200**	**1205**	**1207**	**1019**	**1028**	**1028**
Margin	75.2%	75.5%	75.6%	74.7%	75.4%	75.4%
Margin change			20 bps			
Margin change without FX			-40 bps			
EBITDA	**481**	**503**	**505**	**395**	**404**	**404**
Margin	30.1%	31.5%	31.6%	29.0%	29.6%	29.6%
Margin change			200 bps			
Margin change without FX			-70 bps			
EBIT	**387**	**413**	**432**	**343**	**351**	**367**
Margin	24.3%	25.8%	27.1%	25.1%	25.8%	26.9%
Margin change			20 bps			
Margin change without FX			-60 bps			
Net profit	**308**	**324**	**338**	**278**	**274**	**293**
Margin	19.3%	20.3%	21.2%	20.4%	20.1%	21.5%
Margin change			-30 bps			
Basic EPS in CHF	**19.3**	**20.3**	**21.2**	**17.2**	**17.0**	**18.2**
Dividend in CHF[3]	**5.75**			**5.25**		
Free cash flow[4]	**229.7**			**169.4**		
Margin	14.4%			12.4%		
Headcount (end Dec.)	**7590**			**5954**		

[1] The adoption of the new lease standard IFRS 16 led to changes in the EBITDA, EBIT and net profit margins of +175 base points (CHF 28 million), +25 base points (CHF 4 million), and -15 base points (CHF 2 million), respectively. The prior-year basis was not restated.

[2] 'Core' figures exclude one-time M&A effects, exceptional pension-plan items, restructuring and non-recurring litigation expenses, amortization and impairment of goodwill and acquisition related intangible assets. 'Before-exceptional results', which were used historically, excluded the same non-recurring items but not acquisition-related asset amortizations. For details and reconciliation table please see pp. 137-139 of the 2019 Annual Report.

[3] The 2019 figure is the proposal to the AGM, payable on 15 April 2020.

[4] i.e. net cash from operating activities, less capital expenditures, plus net proceeds from property, plant and equipment.

Basel, 18 February 2020: In 2019, the Straumann Group once again posted strong growth, as revenue grew 17% in Swiss francs to CHF 1.6 billion. Organic growth also reached 17%, fuelled by double-digit increases across all regions. In Q4, organic growth also amounted to 17%, despite the high base line in 2018, which was the strongest quarterly result in ten years.

Along with this impressive growth, the Group achieved further improvements in profitability, despite significant investments in people, innovative technologies, and infrastructure. With gross profit rising to CHF 1.2 billion, core EBITDA rose 25% and core EBIT grew 18%, with the respective margins reaching 32% and 27%. Core net profit amounted to CHF 338 million, 45 million higher than in the prior year, bringing core basic earnings per share to CHF 21.21 (2018: CHF 18.16).

Guillaume Daniellot, Chief Executive Officer, commented: "We finished a fifth year of double-digit growth with a very good fourth quarter. Our performance was driven by strong growth throughout – across all our businesses and regions. We made several strategic additions to our portfolio, which strengthen our position in the upper and lower value implant segments and enable us to offer customers and their patients a broader range of affordable solutions. We recently entered the orthodontic materials business and gained access to high-performance thermoplastics for our clear aligners. We launched more innovative products and solutions than in previous years, most notably Straumann BLX, which is attracting many new customers. We have added new skills and experience to our workforce in general and to our leadership team. Furthermore, we have invested heavily in sustaining and growing our business in the future. With all the essentials in place, our focus will sharpen further on executing our strategy. We have an attractive rollout program for 2020 and are confident that we can continue to gain market share".

STRATEGIC PROGRESS

To penetrate unexploited markets and segments, the Group launched new products, invested in partners and targeted new key-customer groups throughout 2019.

With the objective of further penetrating the fully-tapered implant segment (which accounts for roughly a quarter of the 27 million dental implants placed annually) and to offer faster treatment options, the Group launched Straumann BLX and a suite of immediacy solutions. To increase affordability, it continued the global rollout of Neodent and strengthened its portfolio of value brands, acquiring Anthogyr and Zinedent, increasing its ownership of Medentika, and investing in Warantec. It also developed 'nuvo', a completely new brand for the lower value segment, which is due to launch in 2020.

In the corporate segment, the Group secured further partnerships with leading dental service organizations (DSOs) in the US and Europe. It also began to focus more intensely on emerging private chains in China. DSOs now account for roughly a tenth of the Group's business.

Acquisitions to increase affordability and to secure technology and services
During 2019, the Group completed ten business combinations (for details see Note 2.1 of the Annual Report), which collectively contributed 2.5 percentage points to topline growth. Two of these were closed in Q4: Yller Biomateriais, the 3D-printing resin business in Brazil, and Bay Materials, a US company specializing in the design, development and supply of high-performance thermoplastics for orthodontic applications.

Further emphasis on digital, orthodontics and digital transformation
In Q4, the Group announced its decision to separate its digital and orthodontics businesses into dedicated units, reflecting their strategic importance and high growth potential. At the same time, it added emphasis to internal digital transformation and data management.

Leadership team complemented with internal and external talent
This strategic initiative led to the appointments of Dirk Reznik as Head Digital BU and Camilla Finzi as Head Orthodontics BU. They both joined the Executive Management Board in January 2020, as did Holger Haderer, Head Marketing & Education, Dr Andreas Meier, Chief Legal Officer & Head Business Development, and Rob Woolley, Head Sales North America. Apart from this, the Group recently announced that Mark Johnson will join the company in May to succeed Dr Gerhard Bauer as Head of Research, Development & Operations, when the latter retires at the end of June 2020. These additions reflect the Group's succession planning, which fosters continuity by developing internal talents and also seeks to add experience, diversity and skills from other leading international firms.

Investing in capabilities to meet demand and create opportunities
With its business expanding strongly, the Group invested heavily in people, creating approximately 830 new jobs worldwide. These and acquisitions increased the global workforce by approximately 1600 to 7590. Most of the new positions were in production and sales-related functions. At the same time, the Group invested in large expansion programs at its implant and clear-aligner production sites to meet growing demand. 122 new jobs were created in Switzerland, mostly in production. Acquisitions added more than 800 employees in 15 countries, extending the diversity, spread and strength of the global team.

BUSINESS PERFORMANCE

By business, more than half of the Group's full-year growth came from **implants**, driven by robust demand for premium solutions and expansion of the value brands. The innovative Straumann BLX implant won customers from competitors and sold more than 100 000 units in its first year on the market. **Restoratives**, which include abutments and CADCAM prosthetics, also delivered strong double-digit growth. The **digital** business expanded strongly, driven by clear aligners, where the number of case-starts rose more than 60%. Digital equipment sales increased, despite the high number of scanners sold in the previous year, especially in Q4. Biomaterials, which benefitted from international rollouts and portfolio additions, was the second fastest-growing business in 2019.

REGIONAL PERFORMANCES

REVENUE BY REGION (in CHF million)	Q4 2019	Q4 2018	FY 2019	FY 2018
Europe, Middle East & Africa (EMEA)	**192.7**	**162.0**	**670.2**	**588.0**
Change in CHF in %	*19.0*	*18.6*	*14.0*	*20.5*
Change in local currencies in %	*23.4*	*21.2*	*18.7*	*17.6*
Change organic in %	*13.4*	*19.3*	*13.4*	*14.6*
North America	**134.2**	**112.4**	**481.6**	**395.8**
Change in CHF in %	*19.3*	*23.9*	*21.7*	*26.9*
Change in local currencies in %	*20.0*	*23.6*	*20.1*	*28.0*
Change organic in %	*19.4*	*23.6*	*19.8*	*20.0*
Asia / Pacific	**81.1**	**65.2**	**304.5**	**251.4**
Change in CHF in %	*24.3*	*25.8*	*21.1*	*32.0*
Change in local currencies in %	*25.4*	*28.1*	*22.3*	*31.2*
Change organic in %	*24.5*	*21.2*	*21.5*	*27.8*
Latin America	**37.2**	**35.0**	**139.9**	**128.4**
Change in CHF in %	*6.3*	*10.3*	*9.0*	*5.5*
Change in local currencies in %	*13.5*	*26.5*	*16.9*	*20.5*
Change organic in %	*13.4*	*26.5*	*16.8*	*20.2*
GROUP	**445.2**	**374.6**	**1596.2**	**1363.6**
Change in CHF in %	*18.8*	*20.5*	*17.1*	*22.6*
Change in local currencies in %	*21.8*	*23.6*	*19.6*	*23.1*
Change organic in %	*17.1*	*21.6*	*17.1*	*18.9*

Europe, Middle East & Africa (EMEA) lifted again by emerging markets

EMEA continued to achieve double-digit organic growth throughout 2019 to post a full-year increase of 13%. Being the largest region, it also made the largest contribution (42%) to the Group's revenue growth. With the Euro weakening against the Swiss Franc, and including the Anthogyr acquisition effect, growth in Swiss francs reached 14%, bringing revenue to CHF 670 million. In Q4, sequential growth increased slightly to 13.4%, lifted by BLX and value-brand rollouts. Germany continued to post solid growth, complemented by strong increases in Italy, Russia, Spain and Turkey. Orders from distributor markets in Eastern Europe were also strong. The Group continued to thrive in the Middle East despite the challenges of political instability in the region.

North America continues excellent performance

North America came close to achieving its highest growth in 15 years, posting full-year organic revenue growth of almost 20%. Benefitting from currency tailwind, growth in Swiss francs climbed to 22%, lifting revenue to CHF 482 million. Throughout the year, the core Straumann business outperformed the market and won customers. In Q4, both the US and Canada continued to perform well, and growth was boosted by the rollout of BLX, following its full market release in Q3. The non-premium implant franchise also progressed well, driven mainly by Neodent GM, which was launched in the prior year. The clear-aligner business also continued to grow strongly throughout the region.

Asia Pacific: dynamic growth continued

With growth exceeding 20% for a third consecutive year, Asia/Pacific (+22%) continued to be the fastest growing region for a fifth consecutive year. Currency tailwind of 1% point, together with a small acquisition effect, lifted growth in Swiss francs to 21%, as revenue climbed to CHF 305 million. In Q4, premium implants continued to be the main driver, lifted by the value brands, as Anthogyr progressed well in China and Neodent was rolled out in Japan and Thailand. Strong scanner sales in China added to the good performance. Apart from the continued dynamic growth in China, Australia, Korea, Japan and Thailand all outperformed their markets. Other regional news in Q4 included the initiation of Peak Dental Solutions, the Group's distribution joint venture with Modern Dental in Hong Kong and Macau. Looking ahead, the impact of the coronavirus on sales is difficult to quantify. Based on current estimates, it could reduce 2020 first-quarter revenue by CHF 30 million or more.

Latin America achieves double-digit growth in a difficult environment

Latin America delivered an exceptional performance in an unstable environment as organic revenue rose 17%. Currency weaknesses reduced this to 9% in Swiss francs, as regional revenue reached CHF 140 million. In Q4, all countries reported revenue increases and organic growth reached 13% in the shadow of an exceptional prior fourth quarter, when revenue surged 27%. The performance was driven by Neodent and Straumann implants as well as the continuing success of botiss biomaterials. The region also recorded its first sales from Yller Biomateriais. Of the two largest markets, Brazil continued to post good growth in a negative market, while Mexico enjoyed dynamic growth lifted by the launch of Neodent GM.

OPERATIONS AND FINANCES

The Group started to implement alternative performance measure (APM) reporting in its 2019 first-half report, in accordance with a new directive from the Swiss Stock Exchange and international practice in the sector. In addition to providing the figures as reported according to IFRS, the Group is also presenting the income statement on a core basis. Core figures exclude exceptional items as well as acquisition-related asset amortizations.

In 2019, the following effects were defined as non-core items:
- The Align Technology patent dispute settlement charge of CHF 26 million or CHF 22 million after tax deduction (Administrative expense)
- Fire damages at Dental Wings of CHF 4 million (COGS) and CHF 3 million (Administrative expense); the insurance coverage to date amounts to CHF 7 million (Other income)
- Amortization of acquisition-related intangible assets of CHF 19 million (EBIT level)
- Consolidation gains of CHF 6 million related to the acquisition/consolidation of former associates (below EBIT).

The adoption of the new lease standard IFRS 16 led to changes in the EBITDA, EBIT and net profit margins of +175 base points (CHF 28 million), +25 base points (CHF 4 million), and -15 base points (CHF 2 million), respectively.

Double-digit volume expansion lifts core gross profit

Strong volume expansion in both premium and value implants lifted gross profit 17% (CHF 179 million) to CHF 1.2 billion. The respective margin expanded 20 base points to 75.6%, despite the fact that the Group had to absorb currency headwind of 40 base points. The aforementioned fire damages in 2019 and an exceptional inventory-revaluation expense of

CHF 9 million following the acquisition of Batigroup in the prior year, were excluded from the core results.

Core EBITDA margin close to 32%

Operational gearing and the effects of the new lease accounting standard resulted in an increase of 200 base points in the core earnings before interest, tax, depreciation, and amortization (EBITDA) margin.

Core distribution expenses, which comprise sales-force salaries, commissions and logistics costs, rose CHF 40 million to CHF 321 million, as the Group entered new businesses and invested further in its distribution network. Despite these important investments, distribution costs decreased by 50 base points relative to sales, contributing to the operating-profit-margin improvement.

Core administrative expenses, which include research and development (R&D) as well as marketing, sales and general overhead costs, increased by CHF 77 million to CHF 460 million, mainly due to new product launches, brand rollouts, the integration of acquisitions and additional expenses related to the new Medical Device Regulation (MDR) in Europe. As a percentage of sales, administrative expenses increased 70 base points.

Investments in its innovation pipeline and clinical programs for new products, e.g. BLX, led to an increase in R&D investments in absolute terms, although this remained stable relative to sales. Taking these items into account, core EBITDA increased 25% to CHF 505 million, lifting the core margin to 31.6%.

The Group has invested significantly in production sites and capacity in recent years and continues to do so in order to meet increasing demand. Consequently, depreciation expenses increased by CHF 9 million. Amortization expenses rose by CHF 4 million, mainly for customer and technology-related intangible assets connected to recently-acquired businesses. After depreciation and amortization charges of CHF 73 million, core EBIT rose to CHF 432 million and the core margin edged above 27%.

Core net profit rises 15%

Core net financial expenses increased from CHF 17 million to CHF 25 million, reflecting higher interest costs of CHF 7 million due to IFRS 16, higher hedging costs and foreign-exchange losses mainly in emerging markets.

The rise in profits led to an income-tax increase of CHF 9 million, translating into a corporate tax rate of 15.7%. The core tax rate was slightly above 16%, which is broadly in line with the Group's long-term guidance.

As a result of the above items, core net profit increased 15% to CHF 338 million, with the corresponding margin reaching 21.2%. Reported net profit rose 11% to CHF 308 million with the corresponding margin reaching 19.3%. Basic core earnings per share climbed almost 17% to CHF 21.21.

Free cash flow reaches CHF 230 million

The improved operating result and the impact of IFRS 16 lifted cash flow from operating activities by 37% to CHF 378 million. Strong volume growth, a higher share of sales in emerging markets and a significant increase in stock-keeping-units (including acquisitions) collectively increased working capital by CHF 33 million to CHF 266 million. Days of sales outstanding increased by one to 57 and days of supplies increased to 175. Net interest expenses including interest on lease liabilities and tax payments collectively increased by CHF 2 million.

The Group's investments in production expansion include additional machinery and buildings in Villeret (CH), Round Rock (USA), Curitiba (BR) and Markkleeberg (D). As a result, CAPEX increased by CHF 40 million to CHF 150 million, including CHF 15 million for the purchase of intangible assets and CHF 15 million related to the acquisition of Anthogyr. Combining the above effects with the proceeds of CHF 1 million from the sale of non-current assets, free cash flow amounted to CHF 230 million.

The cash position at year-end remained solid at CHF 260 million, which exceeds our interest-bearing liabilities by CHF 20 million (2018: CHF 19 million).

Further dividend increase proposed

Based on the excellent results in 2019, the Board of Directors proposes a further dividend increase of CHF 0.50 to CHF 5.75 per share, payable on 15 April 2020, and intends to continue increasing the dividend in the future, subject to further good performance.

Changes in the Board of Directors

At the upcoming Annual General Meeting of the shareholders on 7 April 2020, the Board of Directors will propose the election of Marco Gadola as an additional Board Member. Mr Gadola was CEO of the Straumann Group from 2013 to 2019. Details of his career and other activities can be found on p. 109 of the Annual Report. His financial, business and coaching expertise as well as his profound knowledge of the global dental industry and the Straumann Group will be invaluable to the Board.

His addition to the Board will fill the gap left by Ulrich Looser, who has decided not to stand for re-election at the forthcoming AGM. Mr Looser has served on the Board for ten years and has chaired the Human Resources & Compensation Committee since 2016. The company would like to take this opportunity to thank him for his many contributions and wishes him all the best for the future.

OUTLOOK 2020 (barring unforeseen circumstances)

The Group expects the global dental implant market to continue growing at about 4-5%. The Group is confident that it can continue to gain share by achieving organic revenue growth in the low double-digit percentage range. The expected organic revenue growth will support further investments in Sales & Marketing and Research & Development, resulting in a stable core EBIT margin, excluding the impact of currency fluctuations and the coronavirus.

About Straumann

The Straumann Group (SIX: STMN) is a global leader in tooth replacement and orthodontic solutions that restore smiles and confidence. It unites global and international brands that stand for excellence, innovation and quality in replacement, corrective and digital dentistry, including Anthogyr, ClearCorrect, Dental Wings, Neodent, Medentika, Straumann and other fully/partly owned companies and partners. In collaboration with leading clinics, institutes and universities, the Group researches, develops, manufactures and supplies dental implants, instruments, CADCAM prosthetics, biomaterials and digital solutions for use in tooth replacement and restoration or to prevent tooth loss.

Headquartered in Basel, Switzerland, the Group currently employs approx. 7600 people worldwide and its products, solutions and services are available in more than 100 countries through a broad network of distribution subsidiaries and partners.

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Media and analysts' conference

Straumann's 2019 full-year results conference will take place at 10.00h Swiss time in Basel today. The event will be webcast live on the internet (www.straumann-group.com/webcast). The audio webcast of the conference call will be available for the next month.

The telephone conference can be accessed at:
Europe & RoW: +41 (0)58 310 50 09
UK: +44 (0) 207 107 0613
USA: +1 (1) 631 570 56 13

Annual report

Further details of the 2019 performance and financials can be found in the Group's 2019 Annual Report. The financial statements are an integral part of the Annual Report, which can be viewed online and downloaded (https://annualreport.straumann.com).

Presentation

The conference presentation slides are available at www.straumann-group.com/2019-fy-presentation and on the Media and Investors pages at https://annualreport.straumann.com.

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UPCOMING CORPORATE / INVESTOR EVENTS

Details of forthcoming investor relations activities are published on https://www.straumann.com (Investor information > Investor calendar).

2020	Event	Location
19 February	Investor meetings	London
20 February	Investor meetings	Paris
21 February	Investor meeting	Geneva
03 March	Morgan Stanley Medtech conference	London
10 March	Investor meetings	Montreal
11 March	Investor meetings	New York
12 March	Investor meetings	Chicago
26 March	Investor meetings	Zurich
27 March	Kepler Cheuvreux conference	Zurich
07 April	**AGM 2020**	**Basel Congress Center**
09 April	**Dividend ex-date**	
30 April	**First-quarter results**	**Webcast**
13 May	Investor meetings	Singapore
09-10 June	MainFirst Swiss Equity conference	Interlaken
13 August	**First-half 2020 results conference**	**Basel, HQ**
28 October	**Third-quarter results**	**Webcast**

Disclaimer

This release contains certain forward-looking statements that reflect the current views of management. Such statements are subject to known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of the Straumann Group to differ materially from those expressed or implied in this release. The Group is providing the information in this release as of this date and does not undertake any obligation to update any statements contained in it as a result of new information, future events or otherwise.

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