

DENTSPLY SIRONA (XRAY)

\$37.73 (As of 04/06/20)

Price Target (6-12 Months): **\$40.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/16/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: D

Summary

DENTSPLY SIRONA continues to gain from its core Technology & Equipment unit which witnessed a year-over-year upside in the last reported quarter. Overall sales grew on an internal basis. The latest product launches and positive guidance for 2020 are encouraging. Significant expansion in margins is another positive. DENTSPLY SIRONA ended the fourth quarter on a mixed note, beating the consensus mark on both the counts. The company's bottom line increased significantly. Meanwhile, revenues at the Consumables segment were sluggish in the quarter. Sales in Europe also declined. Additionally, unfavorable foreign currency and restructuring costs are expected to impact DENTSPLY SIRONA in 2020. The coronavirus outbreak is also expected to impact the first quarter. The stock has underperformed the industry on a year-to-date basis.

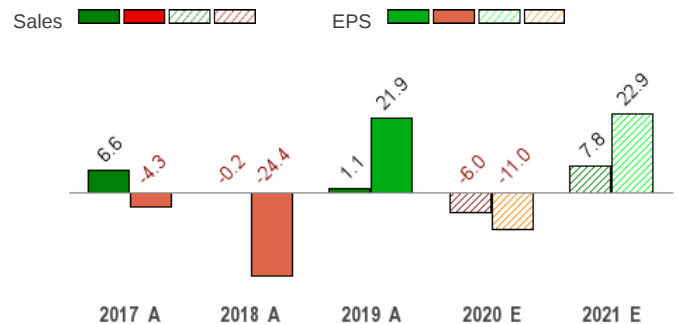
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$60.87 - \$31.58
20 Day Average Volume (sh)	4,135,827
Market Cap	\$8.4 B
YTD Price Change	-33.3%
Beta	1.08
Dividend / Div Yld	\$0.40 / 1.1%
Industry	Medical - Dental Supplies
Zacks Industry Rank	Top 14% (36 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.4%
Last Sales Surprise	2.1%
EPS F1 Est- 4 week change	-17.3%
Expected Report Date	05/01/2020
Earnings ESP	-13.5%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	995 E	1,007 E	1,004 E	1,185 E	4,082 E
2020	882 E	894 E	897 E	1,113 E	3,787 E
2019	946 A	1,009 A	962 A	1,112 A	4,029 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.62 E	\$0.71 E	\$0.64 E	\$0.92 E	\$2.68 E
2020	\$0.40 E	\$0.51 E	\$0.49 E	\$0.75 E	\$2.18 E
2019	\$0.49 A	\$0.66 A	\$0.57 A	\$0.73 A	\$2.45 A

*Quarterly figures may not add up to annual.

P/E TTM	15.4
P/E F1	17.3
PEG F1	1.5
P/S TTM	2.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/06/2020. The reports text is as of 04/07/2020.

Overview

Headquartered in York, PA, DENTSPLY SIRONA Inc. (XRAY) is a global leader in the design, development, manufacture and marketing of dental consumables, dental laboratory products, dental specialty products and consumable medical device products.

Post the DENTSPLY-SIRONA merger, the business has been organized into two reporting segments: Dental & Healthcare Consumables and Technologies.

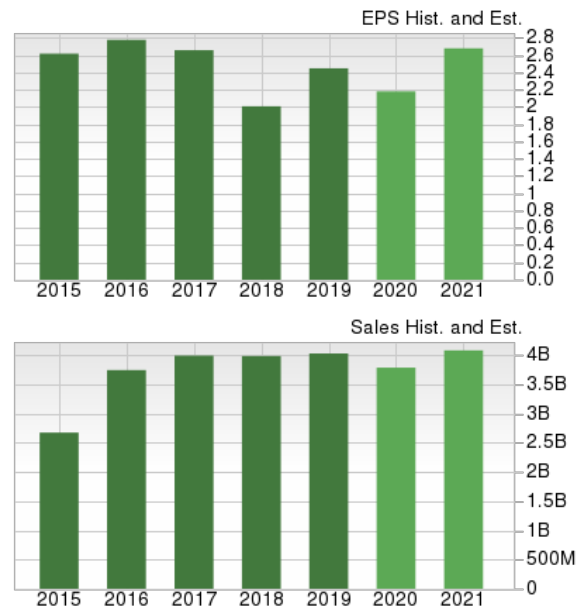
Dental & Healthcare Consumables comprises preventive, restorative, instruments, endodontic, and laboratory dental products, as well as consumable medical device products.

Technologies consist of dental implants, CAD/CAM systems, imaging systems, treatment centers and orthodontic products.

2019 at a Glance

Full-year revenues were \$4.03 billion, up 1.1%.

- Technologies & Equipment segment accounted for 56.7% of net revenues
- The Consumables segment accounted for 43.3% of net revenues.



Reasons To Buy:

- ▲ **View Impressive:** For 2020, DENTSPLY SIRONA continues to expect revenues between \$4.10 billion and \$4.15 billion, suggesting internal sales growth of 3% to 4%.

The company expects adjusted earnings per share (EPS) in the range of \$2.55-\$2.80.

Adjusted operating margin is expected between 19.5% and 20.5%.

- ▲ **New Digital-Implant Workflow in Dentistry:** In a bid to revolutionize digital-implant workflow in dental care, DENTSPLY recently launched a single tooth replacement solution — Azento — in the United States. It is also available in Canada and Europe now. Azento reduces the risk of complications in single-tooth replacement procedures. It revolutionizes the digital implant workflow by restructuring implant-planning service, purchase and delivery. In fact, the recent launch of Primescan drove digital dentistry sales in the fourth quarter of 2019. A report by the Meticulous Research states that the global tooth replacement market is expected to reach \$13,035.2 million by 2022, at a CAGR of 6.9%.

- ▲ **R&D Boosts Product Innovation:** DENTSPLY's overall growth strategy rests on product innovation. The company's solid internal growth, despite challenging macroeconomic headwinds, is primarily driven by its innovative new products. The company pursues several research and development (R&D) initiatives to support technological development. By late 2018, management at DENTSPLY confirmed that the company's current R&D process begins with an exclusive top-down portfolio management process.

This allows the company to focus on developing larger and more impactful initiatives in the quarters ahead. It is encouraging to note that the company is successfully fortifying its foothold in the highly competitive MedTech space with high-end products like PrimeScan, GP Ortho software and many more. The company is also creating a comprehensive R&D portfolio program which is expected to be completed by 2019. This apart, new products like WaveOne GOLD, X-Smart IQ, VDW and CONNECT Drive are expected to drive the company's penetration in Europe. Growing preventive and restorative product portfolio is also expected to drive market expansion in the continent. The company's diversified product portfolio and recurring revenue base are key growth catalysts in the long run.

- ▲ **Product Launches:** In recent times, DENTSPLY launched PrimeScan, a digital impression scanner. Per management, it has been significantly boosting the company's top line. In January, DENTSPLY launched Primemill.

Other launches include Surefil One and a new generation of endodontic files — TruNatomy. Another critical piece of the company's sustainable foundation for growth is the differentiated clinical education program, which has been rolled out in the United States in recent times. Also, the launch of CEREC 5.1 software and OraCheck enables dentists to visualize 3-dimensional changes from virtual optical scans. Additionally, the Astra Tech EV implant system, new versions of the Orthophos, E, S and SL panoramic imaging lines have also been launched.

- ▲ **CAD/CAM Unit in Focus:** DENTSPLY's CAD/CAM is a dental imaging platform and a major foundation in global dental markets. CAD/CAM is a field of dental supplies and prosthodontics using computer-aided design and computer-aided manufacturing technologies. Per Technavio, the global dental CAD/CAM market will witness a CAGR of more than 8% by 2021. We believe that DENTSPLY is likely to benefit from the trends. In a bid to strengthen its CAD-CAM-based dental unit, DENTSPLY acquired OraMetrix — a leading industry provider of innovative 3-D technology solutions. The company also offers an advanced, CAD platform developed for dental professionals to deliver consistently predictable orthodontic outcomes. Post the acquisition, the company will be able to provide an end-to-end digital workflow to dental professionals and address the increasing demands for aesthetics. The acquisition of OraMetrix is likely to strengthen DENTSPLY's footprint in the global dental industry. In fact, the acquisition will introduce a comprehensive orthodontic offering that will include a 'full arch clear-aligner' solution for DENTSPLY. Wellspect, which serves the hydrophilic CIC market, have been driving DENTSPLY's Technology & Equipment revenues. In the fourth quarter of 2019, sales at the segment grew 12.4% year over year to \$669.5 million. Internally, sales grew 17.2%. Per management, growth was backed by strength in Digital Dentistry.

- ▲ **Sales-force Effectiveness:** In 2018, DENTSPLY announced that its growth plans going forward will be built around a few key priorities. The first is sales force effectiveness. The company's second key to growth is to accelerate the pace of innovation. Recently, the company announced its plan to take its industry-leading R&D budget and redirect it into high-impact projects that give a better competitive position. In a rapidly changing competitive space, DENTSPLY's technology portfolio is unmatched.

- ▲ **Restructuring Plan:** DENTSPLY announced a comprehensive plan to accelerate revenue growth, expand margins and simplify its business. The plan includes a restructuring that is anticipated to achieve \$200-\$225 million in net annual cost savings by 2021 through streamlining the organization and consolidating functions. Furthermore, this strategy is expected to boost the top line by 3-4% and deliver an adjusted operating income margin of 20% by the end of 2020 and 22% by 2022.

- ▲ **Emerging markets in Focus:** Emerging markets offer healthy growth opportunities on a long-term basis for DENTSPLY. This is because they remain vastly untapped with low dental products penetration. Growth in these markets is being driven by consumables, technology and equipment performance. DENTSPLY's exceptional strength in its products, brands, clinical education, direct sales and marketing efforts have been providing it with a competitive edge in these places. In 2018, DENTSPLY opened several training facilities in places like Vietnam and Indonesia and expanded its selling organizations in these high potential markets.

Strong focus in R&D is a key positive for DENTSPLY. This apart, DENTSPLY's CAD/CAM dental imaging platform is fortifying its foothold in the global dental markets.

Reasons To Sell:

▼ **Stock Performance:** Over the past year, shares of DENTSPLY have declined 33.3%, compared with the industry's 19.7% decline. Meanwhile the S&P 500 index fell 22.6%. DENTSPLY has seen softness in the Consumables arm recently. Also, the coronavirus outbreak is expected to impact its first quarter.

▼ **Consumables Down:** In the fourth quarter of 2019, DENTSPLY's Consumables sales declined 4.7% year over year to \$442 million. On an internal basis, sales fell 3.1%. Per management, disruptions at the company's Venlo distribution center impacted the segment's sales. Notably, Endodontics and Laboratory net sales declined, partially offset by higher sales of Preventive products.

▼ **Other Headwinds:** Management at DENTSPLY confirmed that portfolio-shaping initiatives and continued acquisitions are expected to reduce 2020 revenues by \$10 million.

Apart from these, the company believes its activities in China will get impacted by the coronavirus outbreak. Notably, for the first quarter, management expects a 60-70 million impact on revenues while adjusted EPS is likely to be dented by 10-12 cents.

▼ **Foreign Exchange Headwinds:** DENTSPLY has significant international presence. Therefore, a strengthening U.S. dollar, especially against the euro, as well as emerging market currencies negatively impacts the company's results. The company faces significant pricing pressure due to intensifying competition. DENTSPLY conducts its operations, both domestic and foreign, under highly competitive market conditions. The size and number of the company's competitors vary by product line and from region to region.

Foreign exchange headwinds are expected to impact the company's top line by \$30 million in 2020.

Foreign exchange volatility is expected to present a major headwind in the coming quarters. The company's margins remains pressed at the moment.

Last Earnings Report

DENTSPLY SIRONA Q4 Earnings Lag Estimates, Sales Rise

DENTSPLY reported adjusted EPS of 73 cents in the fourth quarter of 2019, missing the Zacks Consensus Estimate by a penny. The bottom line surged 25.9% from the prior-year quarter's figure.

The company's revenues rose 4.9% year over year to \$1.11 billion and outpaced the consensus estimate of \$1.09 billion. Per management, internal sales growth was 8.4%.

Quarter Ending **12/2019**

Report Date	Mar 02, 2020
Sales Surprise	2.11%
EPS Surprise	-1.35%
Quarterly EPS	0.73
Annual EPS (TTM)	2.45

Business Details

Net sales Excluding Precious Metal Content

Net sales, excluding precious metal content, came in at \$1.10 billion. The figure increased 4.9% on a year-over-year basis.

For investors' notice, DENTSPLY SIRONA's precious-metal dental alloy products — used by third parties to construct crown and bridge materials — are subject to price fluctuations.

Technologies & Equipment

Per management, Technologies & Equipment revenues rose 12.4% year over year in the fourth quarter to \$669.5 million. Per management, growth was fueled by Digital Dentistry's strong Primescan sales. Equipment & Instruments sales also saw strong growth in the quarter.

Consumables

DENTSPLY SIRONA Consumable revenues declined 4.7% year over year to \$442 million in the reported quarter. On an internal basis, sales fell 3.1%. Per management, disruptions at the company's Venlo distribution center impacted segment sales. Notably, Endodontics and Laboratory net sales declined, while sales of Preventive products improved.

Revenues by Geography

In the United States, revenues climbed 24.6% to \$393 million and 27.5% internally. Rest of World revenues increased 1.5% year over year to \$283.7 million. Revenues in the geography grew 5.1% on an internal sales growth basis. European revenues declined 6.5% year on year to \$434.8 million. On an internal sales growth basis, European revenues declined 2.9%.

Margin Analysis

Adjusted gross profit in the reported quarter amounted to \$1.11 billion, up 4.8% on a year-over-year basis. Adjusted gross margin was 58.2%, up 380 basis points (bps).

Adjusted operating income totaled \$222.4 million, up 26.4% year over year. Adjusted operating margin rose 340 bps in the quarter to 20.2%.

Financial Condition

DENTSPLY SIRONA exited the fourth quarter with cash and cash equivalents of \$404.9 million.

2020 Guidance

For 2020, DENTSPLY SIRONA continues to expect revenues between \$4.10 billion and \$4.15 billion, suggesting internal sales growth of 3% to 4%.

The company expects adjusted earnings per share (EPS) in the range of \$2.55-\$2.80.

Adjusted operating margin is expected between 19.5% and 20.5%.

Valuation

DENTSPLY SIRONA's shares are down 33.3% and 25% in the year-to-date period and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are down 19.8% while the Zacks Medical Market is down 16.7% in the year-to-date period. Over the past year, the Zacks sub-industry is down 26% while sector is down 16.4%.

The S&P 500 index is down 22.6% in the year-to-date period and 14.2% in the past year.

The stock is currently trading at 13.9X Forward 12-months earnings, which compares to 14.3X for the Zacks sub-industry, 18X for the Zacks sector and 15.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.3X and as low as 12.1X, with a 5-year median of 20.4X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$40 price target reflects 14.7X forward 12-months earnings.

The table below shows summary valuation data for XRAY.

Valuation Multiples - XRAY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.86	14.3	18.01	15.73
	5-Year High	25.28	19.08	21.1	19.34
	5-Year Low	12.11	13.7	15.81	15.19
	5-Year Median	20.4	16.54	18.63	17.44
P/S F12M	Current	2.02	0.28	2.33	2.72
	5-Year High	4.54	0.36	3.84	3.44
	5-Year Low	1.76	0.23	2.26	2.54
	5-Year Median	3.08	0.28	2.96	3
P/B TTM	Current	1.64	3.53	3.21	3.31
	5-Year High	3.87	4.72	5.05	4.55
	5-Year Low	1.39	2.53	2.9	2.84
	5-Year Median	1.96	3.45	4.3	3.63

As of 04/06/2020

Industry Analysis Zacks Industry Rank: Top 14% (36 out of 253)



Top Peers

AmerisourceBergen Corporation (ABC)	Neutral
Align Technology, Inc. (ALGN)	Neutral
Danaher Corporation (DHR)	Neutral
Henry Schein, Inc. (HSIC)	Neutral
Integra LifeSciences Holdings Corporation (IART)	Neutral
IDEXX Laboratories, Inc. (IDXX)	Neutral
Patterson Companies, Inc. (PDCO)	Neutral
3M Company (MMM)	Underperform

Industry Comparison Industry: Medical - Dental Supplies				Industry Peers		
	XRAY Neutral	X Industry	S&P 500	ALGN Neutral	HSIC Neutral	PDCO Neutral
VGM Score	B	-	-	C	B	C
Market Cap	8.35 B	1.47 B	18.06 B	13.92 B	6.76 B	1.26 B
# of Analysts	8	5	13	6	9	8
Dividend Yield	1.06%	0.00%	2.34%	0.00%	0.00%	7.94%
Value Score	B	-	-	D	B	B
Cash/Price	0.05	0.09	0.06	0.07	0.02	0.08
EV/EBITDA	13.57	11.97	11.15	20.41	8.14	7.83
PEG Ratio	1.56	1.79	1.87	1.33	2.39	1.19
Price/Book (P/B)	1.65	3.60	2.46	10.35	1.91	0.85
Price/Cash Flow (P/CF)	9.59	11.48	9.59	29.27	9.76	5.84
P/E (F1)	17.90	19.47	15.66	28.58	14.58	9.25
Price/Sales (P/S)	2.07	1.69	1.92	5.78	0.68	0.22
Earnings Yield	5.78%	4.63%	6.30%	3.50%	6.85%	10.84%
Debt/Equity	0.30	0.32	0.70	0.03	0.22	0.44
Cash Flow (\$/share)	3.94	1.35	7.01	6.04	4.83	2.24
Growth Score	B	-	-	A	B	F
Hist. EPS Growth (3-5 yrs)	-4.19%	8.88%	10.92%	32.18%	7.51%	-13.46%
Proj. EPS Growth (F1/F0)	-10.92%	9.07%	0.33%	11.81%	-7.91%	1.16%
Curr. Cash Flow Growth	-53.28%	4.59%	5.93%	4.59%	-9.03%	-11.19%
Hist. Cash Flow Growth (3-5 yrs)	12.09%	12.37%	8.55%	23.79%	2.76%	-3.58%
Current Ratio	2.01	1.62	1.24	1.68	1.58	1.41
Debt/Capital	23.36%	27.42%	42.36%	3.13%	23.03%	30.33%
Net Margin	6.52%	3.00%	11.64%	18.40%	6.96%	0.85%
Return on Equity	10.76%	15.19%	16.74%	30.06%	15.01%	9.57%
Sales/Assets	0.47	1.07	0.54	1.02	1.40	1.66
Proj. Sales Growth (F1/F0)	-6.02%	1.95%	1.00%	6.72%	-3.40%	0.02%
Momentum Score	D	-	-	D	F	B
Daily Price Chg	6.43%	4.83%	7.93%	14.62%	1.70%	-2.75%
1 Week Price Chg	-6.54%	-1.82%	-4.40%	-12.90%	-7.30%	-15.60%
4 Week Price Chg	-10.42%	-6.56%	-6.89%	-18.49%	-13.52%	-38.87%
12 Week Price Chg	-35.07%	-11.46%	-24.81%	-40.71%	-28.81%	-39.91%
52 Week Price Chg	-25.04%	-17.28%	-17.63%	-39.62%	-23.51%	-41.18%
20 Day Average Volume	4,135,827	511,356	4,147,873	1,531,275	3,113,780	1,853,423
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-3.39%	-3.00%
(F1) EPS Est 4 week change	-17.25%	0.00%	-4.97%	-20.75%	-12.62%	-7.35%
(F1) EPS Est 12 week change	-19.30%	-6.29%	-6.79%	-26.51%	-12.83%	-0.26%
(Q1) EPS Est Mthly Chg	-26.90%	-1.21%	-7.32%	-27.83%	-21.12%	-18.29%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	B
Momentum Score	D
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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