

DENTSPLY SIRONA (XRAY)

\$57.79 (As of 01/10/20)

Price Target (6-12 Months): **\$61.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/16/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: C

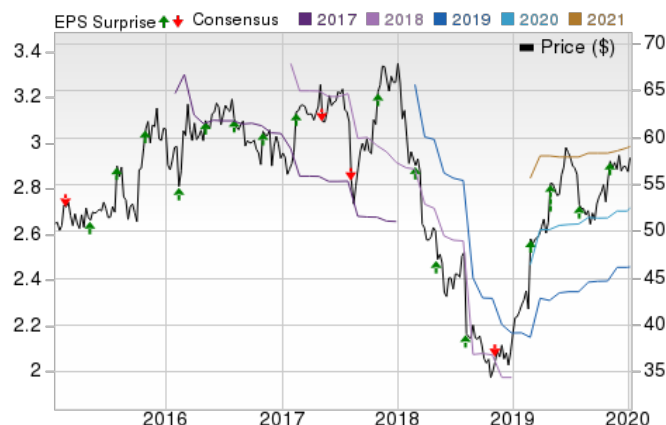
Growth: B

Momentum: C

Summary

DENTSPLY has outperformed the industry in a year. Significant increase in the company's bottom line bodes well. The company gained from its core Technology & Equipment unit that witnessed year-over-year upside recently. Overall, sales continue to grow on an internal basis. Internationally, the company's revenues surged in recent times. The company raised earnings per share guidance, which indicates bright prospects. Product launches are encouraging. Significant expansion in margins is another positive. Meanwhile, sales of Restorative and Endodontics products as well as Laboratory Dental products witnessed some softness lately. Additionally, unfavorable foreign currency exchange and restructuring costs are expected to exert pressure on DENTSPLY SIRONA's top line in 2019. The stock is overvalued at the moment.

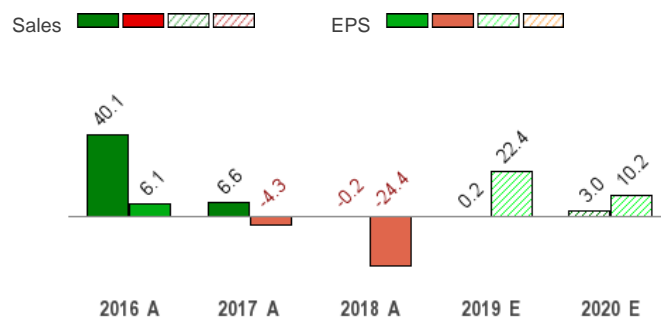
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$60.15 - \$39.59
20 Day Average Volume (sh)	1,009,283
Market Cap	\$12.9 B
YTD Price Change	2.1%
Beta	0.94
Dividend / Div Yld	\$0.40 / 0.7%
Industry	Medical - Dental Supplies
Zacks Industry Rank	Top 42% (106 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	14.0%
Last Sales Surprise	1.8%
EPS F1 Est- 4 week change	0.5%
Expected Report Date	03/06/2020
Earnings ESP	1.2%
P/E TTM	25.1
P/E F1	21.3
PEG F1	1.9
P/S TTM	3.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	971 E	1,036 E	981 E	1,121 E	4,111 E
2019	946 A	1,009 A	962 A	1,089 E	3,993 E
2018	956 A	1,042 A	928 A	1,060 A	3,986 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.57 E	\$0.71 E	\$0.63 E	\$0.81 E	\$2.71 E
2019	\$0.49 A	\$0.66 A	\$0.57 A	\$0.74 E	\$2.46 E
2018	\$0.45 A	\$0.60 A	\$0.38 A	\$0.58 A	\$2.01 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/10/2020. The reports text is as of 01/13/2020.

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.

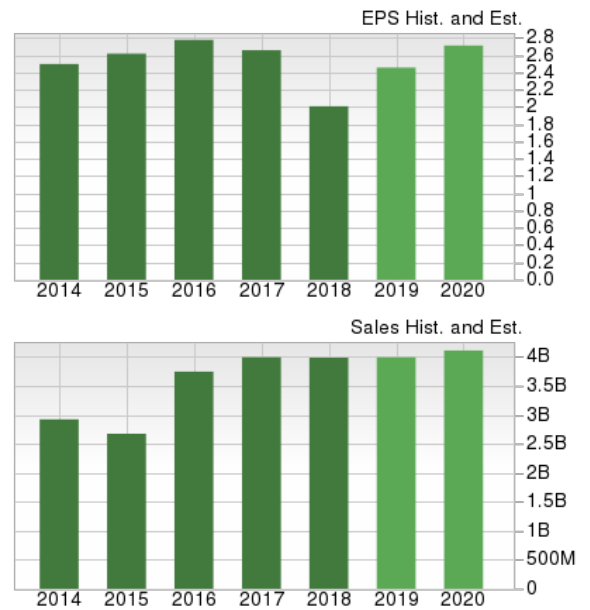
Dental & Healthcare Consumables comprises preventive, restorative, instruments, endodontic, and laboratory dental products, as well as consumable medical device products.

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

2018 at a Glance

Preliminary revenues in 2018 is \$4 billion, down 0.2% year over year. Earnings per share for 2018 were \$2.01, down 24.4% from 2017.

- Technologies & Equipment segment accounted for 53.5% of net revenues
- The Consumables segment accounted for 46.5% of net revenues.



Reasons To Buy:

▲ **Stock Performance:** Over the past year, shares of DENTSPLY have skyrocketed 45.2%, compared with the industry's 6.3% rise. The current level is also higher than the S&P 500 index's 28.4% increase. DENTSPLY has been gaining from solid prospects of the core Equipment unit, which witnessed a year-over-year upside in the third quarter. Focus on R&D and restructuring plans are expected to boost the company's foothold. A solid guidance is indicative of brighter prospects ahead.

▲ **View Impressive:** For 2019, DENTSPLY continues to expect revenues between \$3.95 billion and \$4.05 billion, which calls for internal sales growth of 4% and 5%.

The company also raised the 2019 guidance range for adjusted earnings per share (EPS) in the range of \$2.42-\$2.48 from the previous expectation of \$2.35-\$2.45.

Adjusted operating margin is expected between 18% and 19%.

▲ **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 will be available in Canada and Europe by 2019. 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 third 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 is an important innovation in the CAD/CAM area and should help the company drive additional penetration of chairside dentistry. Another launch was Surefil One, which is a breakthrough in the restorative dentistry area. Per management, the product will be available for shipment in late 2019. Additionally, DENTSPLY launched 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.

In the third quarter of 2019, DENTSPLY launched CEREC 5.1 software and OraCheck, which 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, TruNatomy Endodontic Files system 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, drove DENTSPLY's Technology & Equipment revenues in the third quarter of 2019. Sales in the segment grew 5.1% year over year to \$534.5 million. Per management, growth came on the back of Digital Dentistry and Healthcare.

▲ **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:

- ▼ **Valuation Looks Dull:** DENTSPLY is currently trading at a forward P/E (F12M) ratio of 21.23 over the past year, which compares with 18.88 and 17.84 for the S&P 500 index and the industry, respectively.
- ▼ **Other Headwinds:** In the third quarter of 2019, DENTSPLY's Technology & Equipment revenues were offset partially by weakness in Equipment & Instruments sales and competition in Imaging business. That's not all, sales of Restorative and Endodontics products as well as Laboratory Dental products witnessed some softness in the quarter.

Also, portfolio-shaping initiatives and continued acquisitions are expected to reduce 2019 revenues by \$60 million. Notably, the company expects to incur restructuring charges of about \$180 million in the rest of 2019.

- ▼ **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. Foreign exchange is expected to have a negative impact on 2019 revenues of 2.5% or \$100 million.

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 \$135 million in 2019.

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 Beats on Q3 Earnings Estimates, Margins Expand

DENTSPLY reported adjusted EPS of 57 cents in the third quarter of 2019, beating the Zacks Consensus Estimate of 50 cents. The bottom line surged 51.4% from the prior-year quarter's figure.

The company's revenues rose 3.6% year over year to \$962.1 million and outpaced the Zacks Consensus Estimate of \$944.9 million. Per management, internal sales growth was 7.5%.

Quarter Ending **09/2019**

Report Date	Nov 07, 2019
Sales Surprise	1.82%
EPS Surprise	14.00%
Quarterly EPS	0.57
Annual EPS (TTM)	2.30

Business Details

Net sales Excluding Precious Metal Content

Net sales, excluding precious metal content, came in at \$950.6 million. The figure increased 3.3% 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.

Technology & Equipment

Per management, Technology & Equipment revenues rose 5.1% year over year in the third quarter to \$534.5 million. Per management, growth came on the back of Digital Dentistry and Healthcare, offset partially by weakness in Equipment & Instruments sales and competitive pressures in Imaging business.

Consumables

DENTSPLY SIRONA Consumable revenues rose 1.8% year over year to \$427.6 million in the reported quarter. Per management, the upside was driven by growth in sales of Restorative and Endodontics products.

Revenues by Geography

In the United States, revenues moved up 2.5% to \$337 million and 4% internally. Rest of World revenues increased 5.1% year over year to \$263.7 million. Revenues in the geography grew 10% on an internal sales growth basis. European revenues climbed 3.6% year on year to \$361.4 million. On an internal sales growth basis, European revenues increased 8.4%.

Margin Analysis

Adjusted gross profit in the reported quarter amounted to \$547.9 million, up 7% on a year-over-year basis. Adjusted gross margin was 53.6%, up 60 basis points (bps).

Adjusted operating income totaled \$172.3 million, which surged 43.4% year over year. Adjusted operating margin in the quarter was 18.1% that skyrocketed 510 bps.

Financial Condition

DENTSPLY SIRONA exited the third quarter with cash and cash equivalents of \$226.1 million.

Guidance

For 2019, DENTSPLY SIRONA continues to expect revenues between \$3.95 billion and \$4.05 billion, representing internal sales growth of 4% and 5%.

However, portfolio-shaping initiatives and continued acquisitions are expected to reduce 2019 revenues by \$60 million.

The company also raised the 2019 guidance range for adjusted EPS in the range of \$2.42-\$2.48 from the previous expectation of \$2.35-\$2.45.

Adjusted operating margin is expected between 18% and 19%.

Foreign exchange is expected to negatively impact revenues by \$135 million in 2019.

Valuation

DENTSPLY SIRONA's shares are up 2.1% and 45.2% in the year-to-date period and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are up 2.4% while the Zacks Medical Market is up 0.8% in the year-to-date period. Over the past year, the Zacks sub-industry is up 6.3% and sector is up 8.7%.

The S&P 500 index is up 1.3% in the year-to-date period and up 28.4% in the past year.

The stock is currently trading at 21.23X Forward 12-months earnings, which compares to 17.84X for the Zacks sub-industry, 21.51X for the Zacks sector and 18.88 for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.28X and as low as 14.44X, with a 5-year median of 20.26.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$61 price target reflects 22.6X 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	21.23	17.84	21.51	18.88
	5-Year High	25.28	19.99	51.51	19.34
	5-Year Low	14.44	13.7	15.88	15.17
	5-Year Median	20.26	16.67	18.95	17.44
P/S F12M	Current	3.12	0.36	2.83	3.5
	5-Year High	4.54	0.36	3.81	3.5
	5-Year Low	1.87	0.23	2.42	2.54
	5-Year Median	3.06	0.28	2.93	3
P/B TTM	Current	2.54	4.53	4.52	4.46
	5-Year High	3.87	4.93	5.02	4.47
	5-Year Low	1.43	2.53	3.42	2.85
	5-Year Median	1.98	3.46	4.28	3.61

As of 01/10/2020

Industry Analysis Zacks Industry Rank: Top 42% (106 out of 254)



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
3M Company (MMM)	Neutral
Patterson Companies, Inc. (PDCO)	Neutral

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	A	A
Market Cap	12.85 B	1.48 B	24.03 B	23.12 B	9.78 B	2.09 B
# of Analysts	8	6	13	7	9	8
Dividend Yield	0.69%	0.00%	1.78%	0.00%	0.00%	4.77%
Value Score	C	-	-	D	A	A
Cash/Price	0.02	0.06	0.04	0.04	0.01	0.07
EV/EBITDA	28.40	11.43	14.04	42.92	10.96	11.70
PEG Ratio	1.86	2.06	2.02	2.08	2.03	2.41
Price/Book (P/B)	2.56	3.87	3.32	17.71	2.83	1.43
Price/Cash Flow (P/CF)	6.86	12.05	13.52	51.57	12.05	9.71
P/E (F1)	21.32	22.01	18.82	45.21	17.98	15.36
Price/Sales (P/S)	3.23	1.50	2.63	10.09	0.91	0.37
Earnings Yield	4.69%	4.06%	5.31%	2.21%	5.57%	6.51%
Debt/Equity	0.30	0.32	0.72	0.03	0.30	0.49
Cash Flow (\$/share)	8.42	1.80	6.94	5.69	5.53	2.24
Growth Score	B	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	-4.15%	8.77%	10.56%	32.16%	8.77%	-12.79%
Proj. EPS Growth (F1/F0)	10.51%	13.35%	7.49%	20.46%	7.41%	1.43%
Curr. Cash Flow Growth	-27.39%	9.29%	14.83%	27.89%	10.44%	-11.19%
Hist. Cash Flow Growth (3-5 yrs)	31.76%	12.65%	9.00%	25.81%	8.23%	-3.58%
Current Ratio	2.08	1.72	1.23	1.73	1.63	1.59
Debt/Capital	23.13%	26.85%	42.99%	3.21%	27.89%	32.97%
Net Margin	4.08%	3.65%	11.08%	18.28%	4.66%	1.01%
Return on Equity	10.08%	15.73%	17.16%	28.76%	15.93%	8.97%
Sales/Assets	0.46	1.02	0.55	1.02	1.43	1.67
Proj. Sales Growth (F1/F0)	2.95%	5.42%	4.20%	20.80%	3.48%	0.83%
Momentum Score	C	-	-	D	D	F
Daily Price Chg	0.42%	0.00%	-0.33%	-1.08%	0.63%	0.65%
1 Week Price Chg	-0.95%	0.00%	-0.30%	1.01%	-0.03%	0.74%
4 Week Price Chg	1.49%	0.89%	1.71%	9.29%	-3.20%	-0.77%
12 Week Price Chg	5.17%	5.17%	6.05%	37.12%	4.83%	24.77%
52 Week Price Chg	44.33%	6.39%	22.39%	44.75%	-16.18%	0.93%
20 Day Average Volume	1,009,283	234,749	1,580,816	589,094	1,124,993	1,142,215
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.09%	-0.06%	0.00%
(F1) EPS Est 4 week change	0.47%	0.00%	0.00%	0.50%	-0.06%	0.00%
(F1) EPS Est 12 week change	1.60%	-0.22%	-0.50%	-1.10%	-1.13%	3.18%
(Q1) EPS Est Mthly Chg	0.30%	0.00%	0.00%	1.05%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Growth Score	B
Momentum Score	C
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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