

DENTSPLY SIRONA (XRAY)

\$40.57 (As of 05/18/20)

Price Target (6-12 Months): **\$34.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/13/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: D

Momentum: F

Summary

Per the first-quarter 2020 preliminary announcement, DENTSPLY witnessed deterioration in both earnings and revenues. Its core Technology & Equipment and Consumables units witnessed year-over-year decline in the quarter. Contraction in margins is a concern. Meanwhile, revenues at the Consumables segment were sluggish in the quarter. Sales in Europe also declined. Unfavorable foreign currency and restructuring costs are expected to impact the company in 2020. The coronavirus outbreak is expected to hurt the first quarter. The stock has underperformed the industry in a year's time. However, the healthcare business witnessed solid growth in the quarter driven by strong demand for Wellspect medical supplies. Also, Digital Dentistry witnessed a strong quarter, attributable to strong sales of new products — Primescan and Primemill.

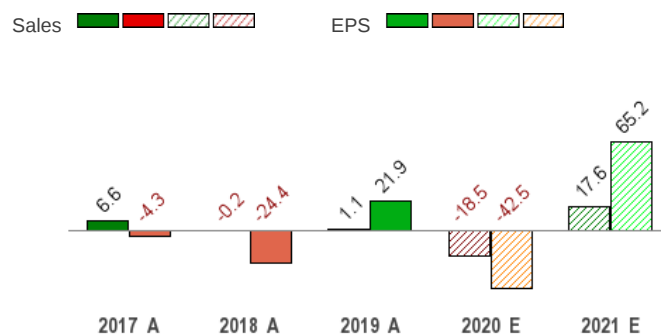
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$60.87 - \$31.58
20 Day Average Volume (sh)	2,625,158
Market Cap	\$8.9 B
YTD Price Change	-28.3%
Beta	1.03
Dividend / Div Yld	\$0.40 / 1.0%
Industry	Medical - Dental Supplies
Zacks Industry Rank	Bottom 38% (158 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.9%
Last Sales Surprise	-0.3%
EPS F1 Est- 4 week change	-30.2%
Expected Report Date	08/07/2020
Earnings ESP	-274.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	898 E	914 E	925 E	1,153 E	3,860 E
2020	874 A	578 E	775 E	1,077 E	3,283 E
2019	946 A	1,009 A	962 A	1,112 A	4,029 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.48 E	\$0.55 E	\$0.53 E	\$0.84 E	\$2.33 E
2020	\$0.43 A	\$0.04 E	\$0.32 E	\$0.69 E	\$1.41 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	17.0
P/E F1	28.8
PEG F1	2.5
P/S TTM	2.3

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/18/2020. The reports text is as of 05/19/2020.

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.

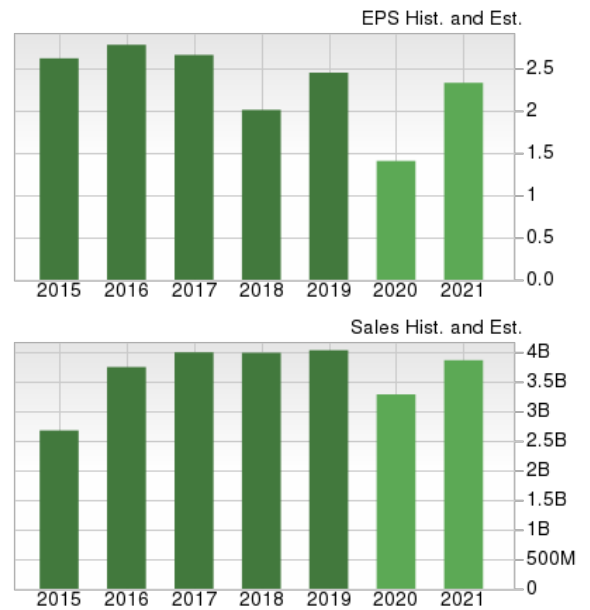
Dental & Healthcare Consumables comprises preventive, restorative, instruments, endodontic, and laboratory dental products, as well as consumable medical device products.

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 Sell:

▼ **Stock Performance:** Over the past year, shares of DENTSPLY have fallen 25.5%, compared with the industry's 13.9% decline. Meanwhile, the S&P 500 index rose 0.8%. The company has seen softness in the Consumables arm recently. Also, foreign exchange headwind and the coronavirus outbreak weighed on its preliminary first-quarter results.

▼ **Consumables Down:** Per the first-quarter 2020 preliminary results, DENTSPLY's Consumables sales declined 16.8% year over year to \$354 million. On an internal basis, sales fell 15.2%. Per management, decline in organic sales stemmed from lower demand across all three regions on account of lower visits by dentists and customers and procedures owing to the COVID-19 pandemic.

▼ **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.

Per the first-quarter 2020 preliminary results, foreign exchange reflected a headwind of around 1.9% in the quarter, primarily due to the strengthening of the U.S. dollar relative to the Euro.

Per the fourth-quarter 2019 earnings call, 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.

Risks

- **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. 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%. Per the first-quarter 2020 preliminary results, digital dentistry and healthcare witnessed solid organic sales growth in the quarter under review, partially offset by decrease in organic sales in Equipment & Instruments and Implants.
- **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, has been driving DENTSPLY's Technology & Equipment revenues.
- **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.
- **Stable Liquidity Position:** DENTSPLY exited first quarter with cash and cash equivalents of \$235.9 million compared with \$404.9 million at the end of 2019. The company's long-term debt came in at \$1.53 billion in the quarter under review, down from \$1.55 billion sequentially. The long-term debt level is significantly higher than the quarter's cash and cash equivalent level. However, we can see that the current debt level of \$33 million in the quarter, noticeably up from \$2 million sequentially, is in fact much lower than the short-term cash level. This is good news in terms of the company's solvency level as, at least during the year of economic downturn, the company has sufficient cash for debt repayment.

DENTSPLY's capital deployment policy is based on the return of shareholders' money through share repurchases and dividends. The company repurchased shares worth \$140 million in the first quarter. Further, the company paid dividends worth \$22.1 million in the first quarter, with its current payout ratio being 16.2%, indicating sustainability of its current dividend payment.

Last Earnings Report

DENTSPLY SIRONA Posts Weak Q1 Preliminary Results

DENTSPLY SIRONA Inc. reported preliminary first-quarter 2020 adjusted earnings per share of 43 cents. The Zacks Consensus Estimate for earnings is pegged at 41 cents. Going by this preliminary announcement, the bottom line declined 12.2% from the prior-year quarter.

Per the preliminary results, the company's revenues came in at \$874.3million, down 7.6% from the year-ago quarter. The consensus mark for revenues is pegged at \$876.9 billion. Per management, internal sales declined 4.3%.

Quarter Ending 03/2020

Report Date	May 08, 2020
Sales Surprise	-0.29%
EPS Surprise	4.88%
Quarterly EPS	0.43
Annual EPS (TTM)	2.39

Business Details

Following are the preliminary segment results for the quarter under review:

Consumables

Consumable revenues were down 16.8% year over year and 15.2% on an internal basis in the first quarter to \$354 million. Per management, decline in organic sales stemmed from lower demand across all three regions due to lower visits by dentists and customers and procedures owing to the COVID-19 pandemic.

Technologies & Equipment

Technologies & Equipment revenues slipped 0.1% year over year to \$520.3 million in the reported quarter. On an internal basis, sales rose 4.8%. Per management, digital dentistry and healthcare witnessed solid organic sales growth in the quarter under review, partially offset by decrease in organic sales in Equipment & Instruments and Implants.

Revenues by Geography

Per the preliminary announcement, in the United States, revenues fell 1.4% to \$300.5 million and 1.2% internally. Rest of World revenues declined 15.3% year over year to \$200.7 million. Revenues in the geography decreased 12% on an internal sales growth basis. European revenues declined 5.7% year on year to \$373.1 million. On an internal sales growth basis, European revenues declined 2%.

Margin Analysis

Per the preliminary results, adjusted gross profit in the reported quarter amounted to \$498.1million, down 7.8% on a year-over-year basis. Adjusted gross margin was 57%, down 10 basis points (bps).

Adjusted operating income totaled \$130.7 million, down 10.2% year over year. Adjusted operating margin down 50 bps in the quarter to 14.9%.

Financial Condition

Per the preliminary announcement, DENTSPLY SIRONA exited the first quarter with cash and cash equivalents of \$235.9 million, down 41.8% from \$404.9 million at the year-end 2019.

2020 Guidance

According to the preliminary announcement, due to the uncertainty regarding the duration and impact of the COVID-19 pandemic on the company's business, the company has withdrawn previously issued 2020 guidance.

Valuation

DENTSPLY SIRONA's shares are down 28.3% and 25.5% in the year-to-date period and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are down 6.6% while the Zacks Medical Market is down 2.9% in the year-to-date period. Over the past year, the Zacks sub-industry is down 13.9% while sector is up 3%.

The S&P 500 index is down 10.9% in the year-to-date period while up 0.8% in the past year.

The stock is currently trading at 23.1X Forward 12-months earnings, which compares to 17.9X for the Zacks sub-industry, 22.7X for the Zacks sector and 20.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.3X and as low as 11.9X, with a 5-year median of 20.4X.

Our Underperform recommendation indicates that the stock will perform below the market. Our \$34 price target reflects 19.3X 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	23.11	17.88	22.65	20.84
	5-Year High	25.28	19.08	22.65	20.87
	5-Year Low	11.97	13.7	15.93	15.23
	5-Year Median	20.38	16.56	19.01	17.49
P/S F12M	Current	2.54	0.32	2.73	3.24
	5-Year High	4.54	0.36	3.76	3.44
	5-Year Low	1.72	0.23	2.21	2.53
	5-Year Median	3.08	0.28	2.92	3.01
P/B TTM	Current	1.9	3.54	3.88	3.91
	5-Year High	3.87	4.72	5.06	4.56
	5-Year Low	1.39	2.53	2.93	2.83
	5-Year Median	1.91	3.43	4.3	3.65

As of 05/18/2020

Industry Analysis Zacks Industry Rank: Bottom 38% (158 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
AmerisourceBergen Corporation (ABC)	Neutral	3
Danaher Corporation (DHR)	Neutral	3
Henry Schein, Inc. (HSIC)	Neutral	4
Integra LifeSciences Holdings Corporation (IART)	Neutral	4
IDEXX Laboratories, Inc. (IDXX)	Neutral	3
3M Company (MMM)	Neutral	3
Patterson Companies, Inc. (PDCO)	Neutral	4
Align Technology, Inc. (ALGN)	Underperform	4

Industry Comparison Industry: Medical - Dental Supplies				Industry Peers		
	XRAY	X Industry	S&P 500	ALGN	HSIC	PDCO
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	4	4	4
VGM Score	F	-	-	F	B	D
Market Cap	8.89 B	1.74 B	20.09 B	18.07 B	8.05 B	1.62 B
# of Analysts	8	5	14	7	9	7
Dividend Yield	0.99%	0.00%	2.1%	0.00%	0.00%	6.16%
Value Score	F	-	-	F	C	B
Cash/Price	0.03	0.08	0.07	0.05	0.08	0.07
EV/EBITDA	14.54	12.29	12.13	27.01	9.24	9.41
PEG Ratio	2.56	3.31	2.72	5.66	4.30	3.10
Price/Book (P/B)	1.89	4.00	2.75	6.33	2.23	1.10
Price/Cash Flow (P/CF)	10.31	14.38	10.86	38.00	11.68	7.52
P/E (F1)	29.30	26.51	20.10	60.88	26.51	14.78
Price/Sales (P/S)	2.25	2.17	2.05	7.50	0.80	0.29
Earnings Yield	3.48%	3.13%	4.77%	1.64%	3.78%	6.75%
Debt/Equity	0.33	0.33	0.76	0.02	0.29	0.44
Cash Flow (\$/share)	3.94	1.35	7.01	6.04	4.83	2.24
Growth Score	D	-	-	D	B	D
Hist. EPS Growth (3-5 yrs)	-4.35%	10.40%	10.87%	43.46%	6.46%	-13.46%
Proj. EPS Growth (F1/F0)	-42.60%	2.26%	-10.31%	-31.85%	-39.38%	-11.99%
Curr. Cash Flow Growth	-53.28%	3.15%	5.51%	4.59%	-9.03%	-11.19%
Hist. Cash Flow Growth (3-5 yrs)	12.09%	12.51%	8.55%	23.79%	2.76%	-3.58%
Current Ratio	2.02	1.63	1.28	1.73	1.64	1.41
Debt/Capital	24.59%	30.33%	44.46%	1.85%	26.51%	30.33%
Net Margin	2.12%	2.12%	10.59%	78.42%	7.11%	0.85%
Return on Equity	10.70%	15.11%	16.29%	107.18%	15.19%	9.57%
Sales/Assets	0.47	1.07	0.55	0.86	1.39	1.66
Proj. Sales Growth (F1/F0)	-18.52%	0.00%	-2.49%	-10.77%	-16.91%	-4.30%
Momentum Score	F	-	-	D	C	F
Daily Price Chg	7.58%	2.14%	5.21%	12.64%	8.98%	13.51%
1 Week Price Chg	-7.23%	-2.64%	-4.56%	-3.03%	-4.20%	-8.99%
4 Week Price Chg	-1.72%	0.96%	4.12%	16.63%	6.13%	8.83%
12 Week Price Chg	-25.86%	-10.81%	-16.39%	-4.45%	-13.12%	-27.76%
52 Week Price Chg	-25.46%	-0.55%	-5.84%	-28.23%	-17.64%	-24.12%
20 Day Average Volume	2,625,158	440,857	2,651,378	1,253,625	1,799,613	1,341,716
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.31%	0.00%
(F1) EPS Est 4 week change	-30.17%	-4.07%	-4.48%	-67.59%	-24.18%	-13.26%
(F1) EPS Est 12 week change	-48.00%	-29.51%	-16.39%	-76.49%	-42.58%	-24.19%
(Q1) EPS Est Mthly Chg	-90.67%	-21.38%	-9.90%	-110.94%	-126.92%	-22.04%

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	F
Growth Score	D
Momentum Score	F
VGM Score	F

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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