straumanngroup

2018 Full-year Report – Media Release

Straumann posts strong Q4, lifting full-year organic revenue growth to 19% as underlying EBITDA margin reaches 30%

- Full year revenue climbs 23% in Swiss francs (19% organic) to CHF 1.364bn, driven by double-digit increases in all businesses.
- Organic growth reaches 22% in Q4, driven by impressive performances in all regions, especially North America and LATAM.
- Underlying[1] EBITDA increases 24%, propelled by strong revenue growth; EBITDA and net profit margins[1] reach 30% and 20%, respectively.
- Free cashflow[5] rises CHF 25m to CHF 169m, driven by strong operating cashflow and despite investments of >CHF 100m in production and growth infrastructure.
- Board proposes further dividend increase to CHF 5.25 per share (2017: CHF 4.75).

KEY FIGURES

(in CHF million)	FY 2018 reported	FY 2018 excl. exceptionals[1]	FY 2017 restated[2]	FY 2017 restated / excl. exceptionals[2,3]
Revenue	**1363.6**		**1112.1**	
Change in CHF %	*22.6*		*21.2*	
Change in l.c.%	*23.1*		*19.8*	
Change in organic growth %	*18.9*		*15.7*	
Gross profit	**1019.2**	**1028.1**	**840.5**	**842.4**
Margin in %	*74.7*	*75.4*	*75.6*	*75.8*
Change in %	*21.3*	*22.0*	*17.0*	*17.2*
EBITDA	**395.0**	**403.8**	**323.5**	**325.5**
Margin in %	*29.0*	*29.6*	*29.1*	*29.3*
Change in %	*22.1*	*24.1*	*24.8*	*25.6*
Operating profit (EBIT)	**342.6**	**351.4**	**283.3**	**285.2**
Margin in %	*25.1*	*25.8*	*25.5*	*25.6*
Change in %	*21.0*	*23.2*	*24.7*	*25.6*
Net profit	**277.8**	**273.9**	**282.2**	**229.7**
Margin in %	*20.4*	*20.1*	*25.4*	*20.7*
Change in %	*-1.6*	*19.3*	*22.9*	*23.0*
Basic EPS (in CHF)	**17.24**	**16.99**	**18.04**	**14.65**
Dividend (in CHF)[4]	**5.25**		**4.75**	
Free cash flow[5]	**169.4**		**144.7**	
Margin in %	*12.4*		*13.0*	
Number of employees (end of December)	**5954**		**4881**	

[1] Exceptionals in 2018 relate to the acquisition of Batigroup, including an inventory revaluation expense of CHF 9m (COGS) and the related tax benefit of CHF 2m. The Createch and T-Plus takeovers resulted in a consolidation gain of CHF 11m.The term 'underlying' refers to accounting figures excluding these effects.

[2] The final purchase price allocation for the ClearCorrect acquisition in 2017 led to changes in the fair values of the identifiable assets and liabilities acquired. These changes reduced the 2017 EBIT by CHF 0.3m and increased net profit by CHF 6.6m.

[3] CHF 23m gain related to the Medentika business combination (CHF 24m after tax), including inventory revaluation expenses of CHF 2m (COGS) and a CHF 25m consolidation gain. The Dental Wings takeover resulted in a consolidation gain of CHF 44m. A loan revaluation led to an impairment expense of CHF 16m in the financial result.

[4] The 2018 figure is the proposal to the AGM, payable on 11 April 2019.

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

Basel, 19 February 2019: In 2018, the Straumann Group posted its strongest annual growth since 2005, as revenue grew 23% in Swiss francs to CHF 1.364 billion. Organic growth reached 19%, fuelled by double-digit increases across all businesses. EMEA was the largest regional contributor, with a 15% increase, while the other three regions grew at more than 20%. Acquisitions[6] contributed a further 4%-points (CHF 39 million). The Group reported a strong fourth quarter with organic growth rising to 22%, lifted by strong digital sales.

Along with this impressive growth, the Group achieved further improvements in profitability, despite significant investments in people, innovative technologies, regulatory support and infrastructure. Underlying[1] EBITDA rose 24%, with the respective margin reaching 30%. Reported net profit, adjusted for revaluation gains due to business combinations, amounted to CHF 274 million, 44 million higher than in the prior year. On an underlying basis, net profit increased 19%, bringing the corresponding margin to 20% and basic earnings per share to CHF 16.99 (2017: CHF 14.65).

Marco Gadola, Chief Executive Officer, commented: “We concluded an exceptional year with a very good fourth quarter driven by strong growth throughout our businesses and regions. Our total-solutions strategy is winning new customers, especially in the corporate sector, and we have made excellent progress in fast-growing emerging markets like China, Russia, Brazil and Turkey. We added a number of strategic acquisitions and partnerships to our portfolio, which provide us with the tools to win in non-premium markets. We also have an exciting premium launch program, which we will share at the upcoming International Dental Show. Having set a high baseline in 2018, we believe that we can achieve further growth in the low-teen-percentage range this year, with further profitability improvements. This is in spite of additional growth investments and the increased share of digital equipment and third-party products in our mix".

STRATEGIC PROGRESS

To penetrate unexploited markets and segments, the Group launched new products, invested in partners and targeted new key-customer groups throughout 2018. It also extended its reach by opening three new subsidiaries and acquiring third-party distribution companies in Canada, Portugal and Turkey.

New premium implant systems

Q4 marked the limited release of Straumann’s next-generation fully-tapered implant system, BLX. Together with BLT, which has been a key driver over the past four years, BLX will enable the Group to maintain strong growth going forward. At the same time, Straumann launched its unique Mini Implant and PURE 2-piece ceramic implant. To complement the latter, the Group acquired a 34% stake in Z-Systems and gained exclusive distribution rights for their innovative metal- and plastic-free tapered bone-level ceramic implant solution.

Penetrating the non-premium segment

Earlier in the year, the Group converged its premium and non-premium activities to unlock selling opportunities. This spurred the international rollout of Neodent and its new GM implant line. In Q4, the Group took control of T-Plus in Taiwan and gained a foothold in the lower value segment in China.

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[6] The following acquired or consolidated businesses contributed to the Group’s results in 2018: Createch, ClearCorrect, Dental Wings, Batigroup and T-Plus.

Zinedent fully acquired
Shortly after the current year began, the Group took full ownership of Zinedent, the joint venture it established with its former Turkish distributor in 2015. Zinedent supplies implant solutions in Turkey and distributor markets in the Middle East, North Africa, and Eurasia. Its products use an established design and are priced for the lower value segment, making them attractive in emerging markets.

Valoc becomes part of the Straumann Group
Removable overdentures carried on dental implants are one of the most popular modern treatment options for edentulous patients. Straumann offers sophisticated, precise retention devices that are developed and manufactured in Switzerland by its partner Valoc AG. The company's innovative Novaloc and Optiloc retention systems offer high durability, reliability and user-friendliness and are compatible with most leading dental implant systems. Optiloc is one of the smallest retention systems and is now available on Straumann's new Mini Implant. Since joining forces four years ago, the two partners and Medentika have rolled the Valoc range out internationally and have made it one of the most widely-used systems. The Group announced today that it has increased its investment in Valoc from 44% to a controlling stake of 55% and has consolidated the company in the Group's Financial Statements as of 29 January 2019.

Creating opportunities in corporate dentistry
To capture opportunities in the attractive corporate segment, the Group created a dedicated business unit at the beginning of 2018 to serve Dental Service Organizations (DSOs) with its unique portfolio of total solutions. The team has doubled in size and the business is growing rapidly. In 2018, it won contracts with DSOs in Europe and the US that collectively comprise several hundred clinics. In Q4, the Group entered an agreement to supply clear-aligner solutions to one of the largest DSOs in Europe.

Becoming a total solution provider in esthetic dentistry
In addition to the aforementioned strategic transactions in 2018, the Group acquired Createch fully and purchased stakes in both Dental Monitoring (DM) and botiss biomaterials to secure access to innovative technologies and solutions.

ClearCorrect continued to grow strongly in North America, where it began to promote its clear aligners with DM's remote monitoring system. It also ran successful pilot programs in several countries in preparation for market entries. In Q4, it began launch activities in the large Brazilian market (full launch at the CIOSP event in February 2019) and paved the way to enter major European markets. More recently, the Group gained access to the world's second-largest and fastest-growing clear-aligner market, China, by obtaining exclusive distribution rights for clear aligners produced by Tianjin ZhengLi Technology Company.

Investing in capabilities to meet demand and create opportunities
Throughout 2018, the Group invested heavily in people, creating approximately 700 new jobs worldwide. These and acquisitions increased the global workforce by more than thousand. The majority of the new positions were in sales-related functions in high growth markets. At the same time, the Group invested in large expansion programs at its implant and clear-aligner production sites to meet growing demand. 115 new jobs were created in Switzerland, mainly in production and R&D, to drive the Group's strong development pipeline. The Group also invested considerablely in its Enterprise-Resource-Planning system in Brazil, as well as in

Regulatory and Quality resources in Europe to meet the Medical Device Regulation (MDR) that will come into effect in May 2020.

BUSINESS PERFORMANCE

The full-year performance was driven by **implants,** which posted double-digit growth throughout and generated half of the Group's growth. All implant lines, including the ceramic range, contributed to this, with the strongest growth coming from Straumann's BLT line. The Group's non-premium implant business also developed well, especially in North America and emerging markets. Uptake was slower than expected in some parts of Europe.

The **restorative** business delivered good results, with standard and Variobase abutments outpacing implant growth. Further impetus came from the **digital** business, driven by buoyant demand for intraoral scanners and 3D printers. The clear-aligner business grew dynamically in its established markets (Australia, the UK and the US) with the number of new cases growing at more than 50%.

Sales of **biomaterials** also advanced at a double-digit rate and accelerated in August, when supplies of the tissue-regeneration product Emdogain resumed in the key US market. Demand for Straumann's bone-graft and membrane products was good throughout the year.

REGIONAL PERFORMANCES

EMEA lifted by expansion in emerging markets

Over the full year, organic growth climbed 15% in the region, as revenue reached CHF 588 million. Growth accelerated to 19% in Q4, lifted by new products. Belgium, Iberia, Russia, Sweden and the UK all posted dynamic increases, reflecting investments in local sales organizations as well as increased demand for premium and non-premium implants. Socio-economic uncertainty constrained the market in Italy, while Germany and Switzerland both reported good growth. Eastern Europe and the Middle East also performed well, reflecting the successful integration of Batigroup in Turkey, strategic investments in emerging markets, and successful ITI congresses in the region.

Further customer gains in North America

North America reported another strong year with organic revenue climbing 20%. The acquisition effect (mainly related to ClearCorrect) contributed a further 8%-points to growth. The Straumann implant business (particularly BLT) was the main growth driver, while Neodent grew dynamically and gained customers in the non-premium segment. Supported by greater territory coverage, the clear-aligner business grew strongly in both the US and Canada. Benefitting from a slight currency tailwind, growth in Swiss francs climbed to 27%, lifting revenue to CHF 396 million. In Q4, the region continued to deliver double-digit organic growth (+24%), with an above-market performance in implants and abutments as well as strong growth in CADCAM and clear aligners.

China continues to power dynamic Asia Pacific region

With organic revenue growth of 28%, APAC was the Group's fastest-growing region for a fourth consecutive year. Currency tailwind of 1% point together with a small acquisition effect lifted growth in Swiss francs to 32%, as revenue climbed to CHF 251 million. In Q4, growth was driven by continuing dynamic expansion in China, helped by a strong performance in Korea. With the exception of Japan, which posted an exceptionally strong prior year, all subsidiaries grew at double-digit rates, bringing organic revenue to 21%. The Group opened a subsidiary in Thailand and strengthened its foothold in the highly competitive non-premium arena, with Neodent in Australia, Indonesia and Thailand, and T-Plus in Taiwan and China. It also continued to gain share in the premium segment in many markets.

Confidence boost in Latin America, but currencies still weak

Despite political and economic challenges during the year, LATAM achieved full-year organic growth of 20%. However, currency weaknesses – most notably the Brazilian Real – slashed this to 6% in Swiss francs, as regional revenue reached CHF 128 million. In Q4, organic growth accelerated to 27%, reflecting the marked improvement in confidence following the Brazilian election. This also improved sales of higher-priced products, like Neodent GM. Following the successful launches of botiss in Brazil and Mexico earlier in the year, sales of biomaterials developed dynamically and boosted the overall performance. Brazil posted double-digit revenue growth and the other countries all reported very dynamic increases.

REVENUE BY REGION

(in CHF million)	Q4 2018	Q4 2017	FY 2018	FY 2017
Europe, Middle East & Africa (EMEA)	**162.0**	**136.6**	**588.0**	**488.0**
Change in CHF in %	*18.6*	*29.3*	*20.5*	*18.8*
Change in local currencies in %	*21.2*	*22.2*	*17.6*	*17.0*
Change organic in %	*19.3*	*15.0*	*14.6*	*11.3*
North America	**112.4**	**90.7**	**395.8**	**312.0**
Change in CHF in %	*23.9*	*34.5*	*26.9*	*22.0*
Change in local currencies in %	*23.6*	*36.3*	*28.0*	*22.1*
Change organic in %	*23.6*	*22.7*	*20.0*	*18.7*
Asia / Pacific	**65.2**	**51.8**	**251.4**	**190.5**
Change in CHF in %	*25.8*	*26.3*	*32.0*	*24.9*
Change in local currencies in %	*28.1*	*26.3*	*31.2*	*26.7*
Change organic in %	*21.2*	*22.1*	*27.8*	*23.6*
Latin America	**35.0**	**31.7**	**128.4**	**121.6**
Change in CHF in %	*10.3*	*12.0*	*5.5*	*23.6*
Change in local currencies in %	*26.5*	*12.3*	*20.5*	*14.8*
Change organic in %	*26.5*	*11.6*	*20.2*	*14.6*
GROUP	**374.6**	**310.8**	**1363.6**	**1112.1**
Change in CHF in %	*20.5*	*28.2*	*22.6*	*21.2*
Change in local currencies in %	*23.6*	*25.5*	*23.1*	*19.8*
Change organic in %	*21.6*	*18.0*	*18.9*	*15.7*

OPERATIONS AND FINANCES

The Group has adjusted its 2017 consolidated financial statements retrospectively to reflect changes in the fair values of the identifiable assets and liabilities due to the final purchase price allocation for the ClearCorrect acquisition in September 2017. These changes reduced the 2017 EBIT by CHF 0.3 million and increased net profit by CHF 6.6 million.

In 2018, the following non-cash-relevant effects arose from acquisitions and business combinations:

- The acquisition of Batigroup on 1 January 2018 led to an exceptional inventory-revaluation expense of CHF 9 million, which is reported under ‘Costs of goods sold’, as well as a tax benefit of CHF 2 million.
- In July 2018, the Group increased its ownership in Createch Medical, a leading provider of high-precision CADCAM dental prosthetics, from 30% to full ownership. Prior to this, the business was included in ‘Share of results of associates’. The business combination led to a consolidation gain of CHF 4 million below the EBIT line (see Financial Report Note 4).
- In November 2018, the Group increased its stake in T-Plus from 49% to 58% and consolidated the business. This led to a consolidation gain of CHF 7 million.

All of these effects are treated as exceptionals to facilitate the like-for-like comparison. The term underlying refers to accounting figures excluding these effects.

Double-digit volume expansion lifts gross profit

Strong volume growth in implants lifted gross profit above the CHF 1 billion threshold for the first time. It increased 22% to CHF 1028 million, with the underlying margin at 75% – in line with H1, despite the negative flip in the currency impact in H2. Year-on-year, the gross margin was 40 base points lower than in 2017, primarily due to the less favorable business mix. In pursuit of its strategy to provide complete integrated solutions, the Group generated strong demand for its digital equipment and clear-aligner solutions, which have a lower gross margin than implants.

EBITDA margin just less than 30%

‘Distribution expenses’, which comprise sales-force salaries, commissions and logistics costs, rose CHF 41 million to CHF 291 million as the company incorporated the aforementioned acquisitions and invested further in its distribution network. Despite these important investments, distribution costs decreased by 120 base points relative to sales. This was the key improvement driver of operating-profit-margin.

R&D, marketing and general overhead costs, which are grouped under ‘Administrative expenses’ in the income statement, increased by CHF 78 million to CHF 389 million, mainly due to the incorporation of ClearCorrect and Batigroup, as well as additional expenses to comply with the MDR. As a percentage of sales, administrative expenses increased 60 base points. R&D investments increased in absolute terms but remained stable at 5% of sales.

Taking all the aforementioned items into account, earnings before interest, tax, depreciation, amortization (EBITDA) and exceptionals increased 24% to CHF 404 million, lifting the underlying margin 35 base points to just under 30%.

In recent years, the Group has built new manufacturing facilities and continues to increase the capacity of its existing sites significantly. As a consequence, depreciation expenses increased by CHF 5 million. Amortization expenses rose CHF 7 million, mainly for customer and technology-related intangible assets connected to recently-acquired businesses. After depreciation and amortization charges of CHF 52 million, underlying operating profit (EBIT) amounted to CHF 351 million (reported: CHF 343 million) compared with CHF 285 million in 2017. The underlying EBIT margin increased 20 base points to almost 26%.

Net profit rises 19%
Underlying net financial expenses increased from CHF 3 million (reported: CHF 19 million) in the prior year to CHF 17 million, reflecting higher hedging costs in 2018 due to increased volatility, foreign-exchange losses in some emerging markets, and a lower interest result. The strong performance of Batigroup after its acquisition led to a revaluation of the present value of future earn-out payments.

The exceptional gains related to the consolidation of T-Plus and Createch amounted to CHF 11 million. The Group's share of results from associates[7] was a negative CHF 10 million, similar to the prior year. This reflects an impairment charge of CHF 8 million for RODO Medical, which was reported in H1 and was due to the delay in the development and commercialization of the company's prosthetic-retention system.

Underlying income-tax expenses rose by CHF 8 million due to the increase in profits. Tax expenditure amounted to CHF 49 million, or CHF 51 million excluding the aforementioned exceptional tax-benefit of CHF 2 million. The underlying income-tax rate was stable at 15%, which is consistent with the Group's long-term guidance.

As a result of all the above items, underlying net profit increased 19% to CHF 274 million, with the corresponding margin reaching 20%. Basic earnings per share rose more than CHF 2 to CHF 16.99.

Free cash flow climbs to CHF 169 million
Cash flow from operations increased 28% to CHF 277 million, due to the rise in operating income. This corresponds to a solid cash conversion rate of 102%[8]. Cash generation would have been even higher, had it not been for the increase in net working capital as a result of the strong topline growth. Trade receivables and inventories increased in absolute terms, while 'days of supply' decreased by 9 days and 'days of sales outstanding' remained unchanged.

The Group invested CHF 93 million in production and infrastructure, which is 40% more than the prior year and covers new machinery, new properties and building expansion. In spite of this, free cash flow amounted to CHF 169 million and the respective margin reached 12%. CHF 73 million was used for acquisitions. Taking CAPEX, financial investments and other items into account, cash used for investing activities in 2018 amounted to CHF 199 million.

The cash position at year-end remained solid at CHF 279 million, which exceeds the company's interest-bearing liabilities by CHF 17 million.

Dividend increase proposed
Based on the excellent results in 2018, the Board proposes a further dividend increase to CHF 5.25 per share (2017: CHF 4.75), payable on 11 April 2019. It intends to continue increasing the dividend in the future, subject to further good performance.

Proposed addition to the Board of Directors
At the upcoming Annual General Meeting of the shareholders on 5 April 2019, the Board of Directors will propose the election of Juan-José Gonzalez as an additional Board Member.

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[7] Associate companies in 2018 comprise: Abutment Direct, Anthogyr, botiss, Dental Monitoring, Geniova, maxon dental, Rapid Shape, Rodo Medical, V2R, Valoc, Z-Systems, and Zinedent. The equity method of accounting is applied for these companies, in which Straumann holds non-controlling stakes. The associate result is shown net of tax and after amortization of intangibles.
[8] Relationship between operating cash flow and net profit.

Mr Gonzalez is an expert in the medical-technology and consumer-health sectors, and has a deep knowledge of global markets, healthcare systems, and technology. He has served as President of Johnson & Johnson's orthopedic business, DePuy Synthes, in the US since 2015 and as Chair of the Orthopedics Sector of AdvaMed in the US since 2016. Prior to this, he headed DePuy Synthes EMEA and was Vice President of J&J's Enterprise Program Office, where he worked closely with the CEO and Executive Committee on enterprise strategy, portfolio and key growth initiatives. Previously, he held positions in global/regional/country management in J&J's consumer health business. Prior to joining J&J in 2007, he worked for Pfizer, McKinsey and Procter & Gamble across various continents.

Juan-José Gonzalez is 46 years old and has both Peruvian and US citizenship. He holds a BSc in Industrial Engineering, an MBA, and a Master's in Technology Management. His background, multinational experience and skills in strategy, execution, talent development and mentoring make him a valuable addition to the Board and increases its diversity. Further information will be sent to the shareholders prior to the AGM.

OUTLOOK 2019 (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 outperform and gain share by achieving organic revenue growth in the low-teen percentage range. Assuming fairly stable currency exchange rates, the expected organic revenue growth and operational leverage should lead to further improvements in the EBITDA and EBIT margins, in spite of further investments in Sales & Marketing and Research & Development. These profitability objectives exclude exceptional effects related to acquisitions as well as the impact of adopting IFRS 16 (lease accounting).

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 Straumann, Neodent, T-Plus, Medentika, ClearCorrect, Dental Wings, 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. 6000 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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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.

Media and analysts' conference
Straumann's 2018 full-year results conference will take place at 10.30h 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 2018 performance and financials can be found in the Group's 2018 Annual Report. The financial statements are an integral part of the Annual Report, which can be viewed online and downloaded (www.straumann-group.com/ar2018).

Presentation
The conference presentation slides are available at www.straumann-group.com/2018-fy-presentation and on the Media and Investors pages at www.straumann-group.com.

UPCOMING CORPORATE / INVESTOR EVENTS
Details of forthcoming investor relations activities are published on www.straumann-group.com (Investor information > Investor calendar).

2019	Event	Location
20 February	Investor meetings	New York
21 February	Investor meetings	Chicago
13 March	**IDS investor event**	**Cologne (D)**
21 March	Kepler Cheuvreux Swiss Seminar	Zurich
26 March	Investor meetings	Paris
27 March	Investor meetings	London
05 April	**AGM 2019**	**Basel Congress Center**
09 April	Dividend ex-date	
30 April	**First-quarter results**	**Webcast**
21 May	UBS Healthcare conference	New York
22 May	Berenberg US conference	Tarrytown (US)
04-05 June	Vontobel Switzerland conference	Interlaken (CH)
13 June	Exane BNP Paribas CEO conference	Paris
14 August	**First-half 2019 results conference**	**Basel, HQ**