

Equities

23 April 2012 | 26 pages

The Global Dental Manufacturers

Continue to favour US names ahead of results season

- **All four manufacturers are reporting in the next two weeks** — We review our stance on the global dental industry. We continue to favour the US names and believe that downside risk to our subdued implant growth forecasts outweighs the chance of upward revision. We prefer exposure to non-implant related sectors where innovation continues to deliver strong growth.
- **Despite our economists' upgrades, double-digit implant growth remains distant** — In their publication last week, Citi's economists raised forecasts for global GDP growth by 0.1% for 2012 to 2.6% (this still represents a slowdown from the 3.0% seen in 2011). We have updated our implant market index to reflect this and growth forecasts remain some way off historical levels. We predict a continued two track market, with high-single-digit growth in the US offset by further decline in Europe. What is more, we believe that the risk of a slowdown in the US is far greater than that of a faster-than-expected recovery in Europe. We reiterate our Sell recommendations on Straumann and Nobel Biocare ahead of Q1 12results.
- **Sirona remains our favoured name** — We reiterate our Buy recommendation on Sirona. Despite being in the middle of a 'quiet' year of investment, we believe that Sirona remains the most attractive name amongst the dental manufacturers, offering superior earnings growth while trading at a discount to other players. Penetration rates of chairside CAD/CAM remain low and as innovation continues, we expect this to increase dramatically.
- **Dentsply making all the right noises** — Since we initiated on Dentsply, the company has made a number of announcements which we believe are positive steps: The rebranding of the US implant business to leverage the Dentsply name, and the plan to increase exposure to the CAD/CAM market (with a number of ceramic material launches for the Sirona chairside machine). We have raised our target price to reflect our latest analysis and updated our model to better disclose the GAAP and non-GAAP items. However, we continue to have reservations over the high exposure to a struggling implant market and therefore reiterate our Neutral recommendation.

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Ticker	Rating		Target Price		Current Year Earnings Estimates		Next Year Earnings Estimates	
	Old	New	Old	New	Old	New	Old	New
NOBN.VX	3	3	SFr7.60	SFr7.60	€0.31	€0.31	€0.32	€0.32
SIRO	1	1	US\$55.80	US\$55.80	US\$2.35	US\$2.35	US\$2.85	US\$2.85
STMN.S	3	3	SFr133.60	SFr133.60	SFr7.51	SFr7.51	SFr8.63	SFr8.63
XRAY	2	2	US\$39.20	US\$42.00	US\$2.02	US\$2.29	US\$2.36	US\$2.52

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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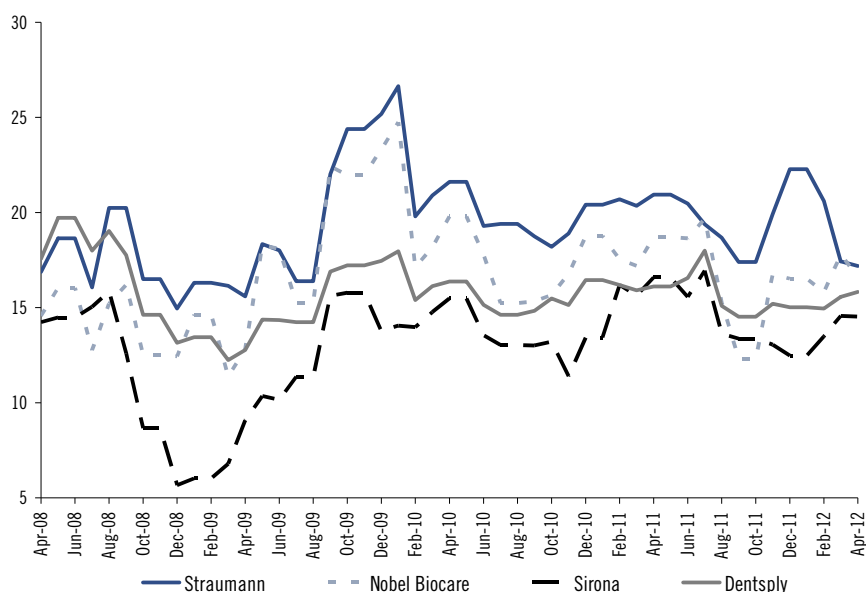
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Investment summary

With all four dental manufacturers reporting results over the next two weeks, we reiterate our view on the space favouring the US manufacturers over European names. We prefer the innovative technologies of Sirona (Buy) and the diversified businesses of Dentsply (Neutral) over the high exposure to the implant market that Nobel Biocare (Sell) and Straumann (Sell) offer.

Following updates from our CIRA economists to their global GDP forecast for 2012, we have updated our dental implant market index. Despite the 0.1% increase, global GDP is still expected to slow from 3.0% in 2011 to 2.6%. In addition, this growth is largely driven by emerging Asia, with a -1.0% decline expected in Europe and growth of 2.1% in the US. It is also our house view that the risk of a slowdown in the US outweighs the chance of an acceleration in the rate of recovery in Europe. Adopting these new forecasts, our implant index now predicts global market growth of 5.7% (11-16E CAGR), which we believe this is insufficient to justify the multiples on which Nobel and Straumann continue to trade.

Figure 1. Dental manufacturers one year forward PE multiples



Source: Powered by dataCentral.

We continue to believe that the more attractive dental names reside in the United States and maintain our Buy recommendation for Sirona, where we believe innovation continues to deliver savings to the dentist. We remain Neutral on Dentsply although we are encouraged by both the moves made in the dental implant business to leverage the Dentsply name in the US and increased activity in the CAD/CAM market.

The reporting season for the dental manufacturers kicks off next week with Straumann on 26 April and Nobel the following day. We do not expect to see any signs of recovery in Europe, in fact our implant index is suggesting further decline as economic woes have increased, particularly in Southern territories, such as Spain. In addition, prior comparisons are tougher in North America and sustaining high-single-digit growth in the region could be challenging throughout 2012.

Furthermore, our house view is that the chance of slowdown in the US is far greater than that of a faster than expected recovery in Europe. With this in mind, we believe that there is far greater downside risk to our implant market growth expectations.

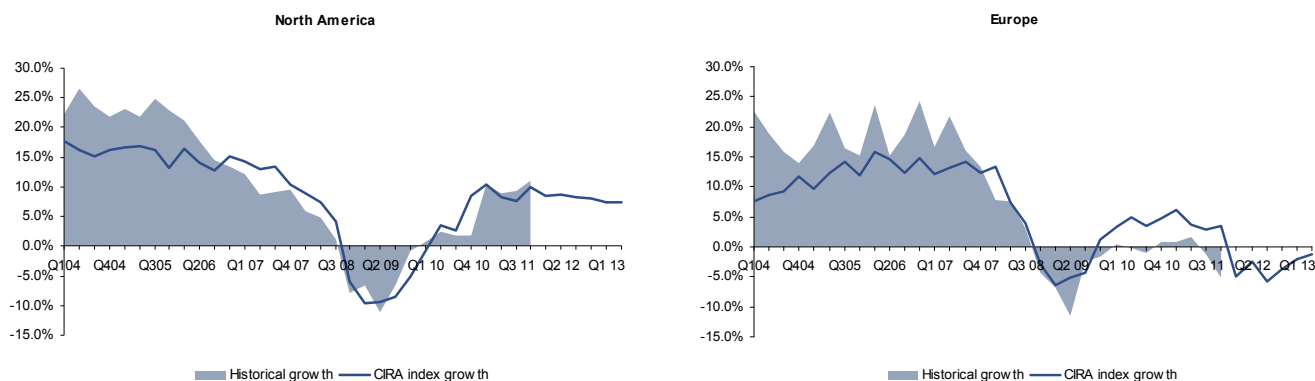
Implant market update

Market index review

Following the renewed estimates of our economists, we have updated our implant market indices. Our index predicts a slight slowdown in US growth and a decline in line with that reported in Q4 11 for Europe.

While we do not believe that the implant market is driven solely by macro-economic conditions, we believe that in the current climate, these factors have an increased bearing on market performance.

Figure 2. Citi dental implant market indices vs. historical market growth for North America and Europe



Source: Citi Investment Research and Analysis and Datastream

It is our belief that on a 5-10 year view, the industry looks attractive; we anticipate a return to high-single-digit global market growth in 2016 and that double-digit growth is achievable beyond this. When this growth returns, the implant manufacturers look well-placed to deliver significant margin expansion and EPS growth.

Figure 3. CIRA forecast Implant market growth rates

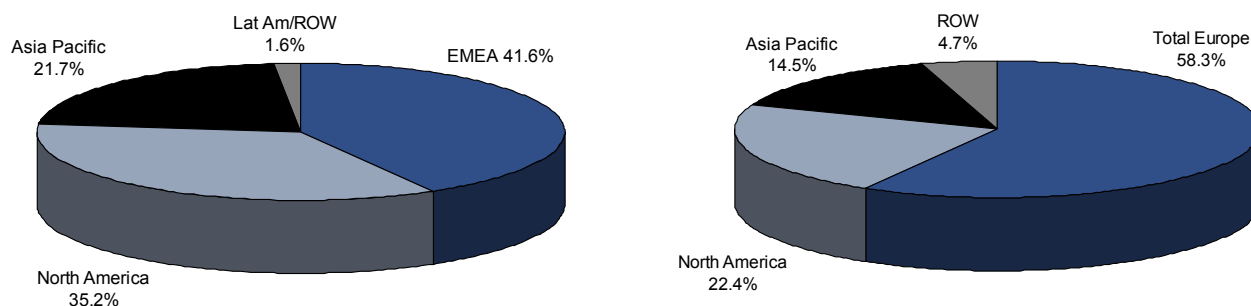
CIRA Index/Model growth	2012E	2013E	2014E	2015E	2016E
North America	8.4%	7.7%	8.5%	9.4%	10.8%
Europe	-4.2%	-0.6%	3.2%	4.2%	6.0%
Asia Pacific	12.2%	8.9%	10.6%	12.7%	9.7%
Rest of World	14.3%	12.4%	10.9%	11.7%	12.7%
Global	2.8%	3.6%	6.2%	7.4%	8.4%

Source: Citi Investment Research and Analysis

European mix could work against Nobel

Since FY 2011 results, we have seen Straumann shares significantly underperform Nobel Biocare. We believe that this is due to two factors: First, Straumann has significantly lower exposure to the US market. Second, Nobel is often cited as a potential take-out candidate.

Figure 4. Regional revenue split of Nobel Biocare and Straumann (2011)



Source: Company reports and Citi Investment Research and Analysis

While the first of these points is valid, we believe that the chance of Nobel Biocare being acquired is low, despite recent articles in the press. Although Nobel has the higher exposure to US, we are concerned by the mix of Nobel Biocare's European business.

Straumann has the larger European exposure, but it is stronger in Northern Europe, particularly Germany, where the company generates ~15% of group sales. Conversely, Nobel has struggled in Germany for a number of years and generates less than 4% of group sales there. We estimate that ex-Germany, Nobel is more exposed to the next four major European markets. Based on the views of our economists, this would suggest that Straumann's European business will outperform Nobel Biocare's over the next 12 months.

Figure 5. CIRA estimates for European sales (percentage of group revenues)

	Germany	France	UK	Spain	Italy	Total	Total ex-Germany
Nobel	4%	7%	3%	7%	6%	27%	23%
Straumann	15%	4%	2%	6%	7%	34%	19%

Source: Citi Investment Research and Analysis

In addition, the larger percentage of revenues in the US means that Nobel will be more exposed to the US medical devices tax, which comes into effect from 2013 onwards. We forecast that this tax will reduce Nobel's 2013 EBIT by 7% versus a 2% hit for Straumann.

Competition increasing in the premium implant space

It is our view that the Dentsply acquisition of Astratech will increase competition dramatically in the premium implant space. We were initially concerned by potential share loss from the combined Astratech-Friadent entity, but initial reports suggest that this is progressing well and Dentsply continued to outperform the market in Q411, overcoming any disruption incurred as a result of the integration of the two companies.

Going forward, we believe that the decision to rebrand the combined entity, while maintaining the trade names of product lines in the US, is strategically sound. Dentsply is one of the best recognized brands amongst the dental community. It is almost impossible to walk into a practice in the developed world that does not use some piece of Dentsply equipment. Leveraging this name in the implant community is logical and dentists that already have an established relationship with their Dentsply sales rep will be inclined to look at the implant offering when choosing a provider.

We have some concern that the effect of this tie-up has been underappreciated. The combined companies already have a market share close to that of Nobel Biocare (the second largest implant player) and with this competitive edge, we believe that Dentsply could become the number one implant provider within the next 5-10 years.

Company Focus

■ Company Update

Buy	1
Price (19 Apr 12)	US\$50.00
Target price	US\$55.80
Expected share price return	11.6%
Expected dividend yield	0.0%
Expected total return	11.6%
Market Cap	US\$2,786M

Price Performance (RIC: SIRO.O, BB: SIRO US)



Sirona (SIRO)

Q2 12 Preview – Quietly investing in near term growth

- **Q2 12 sales forecast to grow 11.1% CER** — We anticipate group sales of \$229.3m, benefitting from strong growth in imaging systems and solid growth elsewhere. On a segment basis, we forecast CAD/CAM sales of \$78.3m up 6% CER (1.7% reported), Imaging systems up 21.0% CER to \$84.3m (16.7% reported), Treatment centre sales of \$41.3m up 4.5% CER (0.2% reported), and Instrument growth of 9.0% CER to \$25.0m (4.7% reported). This leads to group sales of \$229.3m up 11.1% CER (6.8% reported).
- **Anticipate group EBIT margin of 16.4%** — Despite increased investment in drivers of near-term growth, we anticipate an 80bp improvement in group EBIT margin, largely driven by mix benefits. We forecast a 10bp reduction in Gross margin, a 90bp reduction in SG&A expenses (32.0% of sales vs. 32.9%), and R&D in line (6.5% vs. 6.6%). This leads to a group EBIT of \$37.6m, equivalent to a margin of 16.4%, up 12.1% y-o-y.
- **Forecast net income of \$28.5m, down 2.7%** — We expect net income attributable to Sirona to \$28.5m, down 2.7% largely due to net financials. We forecast a net financial expense of \$0.5m versus a gain of \$4.7m in Q2 2011. We forecast a tax rate of 23.0% (vs. 22.0%) to arrive at a net income of \$28.5m, equivalent to a diluted EPS of \$0.51.
- **Reiterate Buy recommendation with a 55.80 target price** — We continue to favour Sirona amongst the dental names: the company is set to deliver strong growth going forward through increased penetration of its innovative products. The company offers EPS growth of 15% (11-16E CAGR) while trading on a one-year forward multiple of 17x. We believe that the stock is undervalued and reiterate our Buy recommendation with a \$55.80 target price.
- **Results to be released at 1130 UK / 0630 ET on May 4** — this will be followed by a conference call at 1330 UK / 0830 ET. Dial-in: US 866.825.1692; International 617.213.8059. Conference ID number 34130978.

Sirona (USD)

Year to 30 Sep	2010A	2011A	2012E	2013E	2014E
Sales (\$M)	770.3	913.9	979.2	1,086.6	1,208.1
Net Income (\$M)	90.0	121.8	133.0	157.7	181.3
Diluted EPS (\$)	1.59	2.13	2.35	2.85	3.31
Diluted EPS (Old) (\$)	1.59	2.13	2.35	2.85	3.31
PE (x)	31.5	23.5	21.3	17.6	15.1
EV/EBITDA (x)	14.2	11.8	10.8	9.4	8.2
DPS (\$)	0.00	0.00	0.00	0.00	0.00
Net Div Yield (%)	0.0	0.0	0.0	0.0	0.0

Figure 6. Sirona Q2/H1 12 Preview

October year end (\$m)	Reported	Reported	Citi	Citi	Cons.	Cons.	Citi vs. Cons.	Citi vs. Cons.
	Q2 11	H1 11	Q1 12E	H1 12E	Q1 12E	H1 12E	Q1 12E	H1 12E
September year end (\$m)								
Dental CAD/CAM systems	77.0	160.4	78.3	162.5				
change y-o-y (CER)	17.0%	17.6%	6.0%	3.9%				
change y-o-y	16.1%	14.5%	1.7%	1.3%				
Imaging systems	72.3	148.6	84.3	178.8				
change y-o-y (CER)	22.2%	16.3%	21.0%	22.9%				
change y-o-y	21.4%	13.8%	16.7%	20.3%				
Treatment centres	41.2	91.0	41.3	92.5				
change y-o-y (CER)	4.8%	14.0%	4.5%	4.3%				
change y-o-y	3.4%	8.7%	0.2%	1.7%				
Instruments	23.9	50.0	25.0	53.0				
change y-o-y (CER)	0.0%	4.3%	9.0%	8.7%				
change y-o-y	-1.3%	-0.6%	4.7%	6.1%				
Total	214.4	449.9	228.9	486.8				
change y-o-y (CER)	14.5%	15.0%	11.1%	10.8%				
change y-o-y	12.9%	11.2%	6.8%	8.2%				
Electronic centre and corporate	0.4	0.5	0.4	0.5				
% of total	0.2%	0.1%	0.2%	0.1%				
change y-o-y	45.9%	44.4%	6.8%	3.8%				
Total Revenue	214.7	450.4	229.3	487.4	233.4	491.5	-1.8%	-0.8%
change y-o-y (CER)	14.0%	14.9%	11.1%	10.8%				
change y-o-y	12.9%	11.2%	6.8%	8.2%	8.7%	9.1%		
Cost of sales	-99.0	-204.3	-105.9	-225.3	-104.0	-223.3	1.9%	0.9%
% of revenue	46.1%	45.4%	46.2%	45.4%	44.5%	45.4%		
Gross profit	115.7	246.1	123.3	262.1	129.4	268.2	-4.7%	-2.3%
change y-o-y	16.5%	16.2%	6.6%	6.5%	11.9%	9.0%		
Gross profit margin	53.9%	54.6%	53.8%	53.8%	55.5%	54.6%		
SG&A expense	-70.6	-133.9	-73.4	-147.0				
% of sales	32.9%	29.7%	32.0%	30.2%				
Research and development	-14.1	-27.7	-14.9	-28.2				
% of sales	6.6%	6.1%	6.5%	5.8%				
Provision for doubtful accounts and notes receivable	0.0	0.0	0.0	-0.1				
% of sales	0.0%	0.0%	0.0%	0.0%				
Other operating income/expense	2.5	5.0	2.5	5.0				
Operating income pre-exceps	33.5	89.5	37.6	91.9	38.9	93.2	-3.5%	-1.4%
change y-o-y	9.4%	20.8%	12.1%	2.6%	16.1%	4.1%		
Operating margin	15.6%	19.9%	16.4%	18.8%	16.7%	19.0%		
Operating income	33.5	89.5	37.6	91.9	38.9	93.2	-3.5%	-1.4%
change y-o-y	9.4%	20.8%	12.1%	2.6%	16.1%	4.1%		
Operating margin	15.6%	19.9%	16.4%	18.8%	16.7%	19.0%		
Foreign currency transaction gains/loss	4.3	5.1	0.0	-2.2				
Loss/gain on derivative instruments	1.6	-0.1	0.0	-0.4				
Interest expense, net	-0.9	-1.9	-0.5	-1.4				
Other income/expense	-0.3	0.5	0.0	-0.3				
Income before taxes pre-exceps	38.1	93.2	37.1	87.5				
change y-o-y	67.6%	49.6%	-2.8%	-6.1%				
Income before taxes	38.1	93.2	37.1	87.5				
change y-o-y	67.6%	49.6%	-2.8%	-6.1%				
Income tax	-8.4	-20.5	-8.5	-20.1				
Tax rate	22.0%	22.0%	23.0%	23.0%				
Tax on exceptional items	0.0	0.0	0.0	0.0				
Income tax provision	-8.4	-20.5	-8.5	-20.1				
Implied tax rate	22.0%	22.0%	23.0%	23.0%				
Net income pre-exceps	29.7	72.7	28.5	67.4				
change y-o-y	63.5%	45.8%	-4.1%	-7.3%				
Net income	29.7	72.7	28.5	67.4				
change y-o-y	63.5%	45.8%	-4.1%	-7.3%				
Net income attributable to non-controlling interests	-0.4	-1.0	0.0	0.0				
Net income attributable to Sirona (pre-exceps)	29.3	71.7	28.5	67.4	29.5	67.7	-3.2%	-0.5%
change y-o-y	67.1%	47.2%	-2.7%	-6.0%	0.5%	-5.5%		
Net income attributable to Sirona	29.3	71.7	28.5	67.4	29.5	67.7	-3.2%	-0.5%
change y-o-y	67.1%	47.2%	-2.7%	-6.0%	0.5%	-5.5%		
Average no. of shares - basic	55.530	55.433	55.655	55.709				
Average no. of shares - diluted	57.221	57.037	56.300	56.810				
EPS basic (pre-exceps)	0.53	1.29	0.51	1.21				
change y-o-y	65.9%	46.2%	-2.9%	-6.5%				
EPS diluted (pre-exceps)	0.51	1.26	0.51	1.19	0.51	1.18	-0.2%	0.7%
change y-o-y	65.3%	45.8%	-1.1%	-5.6%	-0.8%	-6.3%		
EPS basic	0.53	1.29	0.51	1.21				
change y-o-y	65.9%	46.2%	-2.9%	-6.5%				
EPS diluted	0.51	1.26	0.51	1.19	0.51	1.18	-0.2%	0.7%
change y-o-y	65.3%	45.8%	-1.1%	-5.6%	-0.8%	-6.3%		

Source: Company reports, Citi Investment Research and Analysis and consensus from Bloomberg

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Neutral	2
Price (19 Apr 12)	US\$39.73
Target price	US\$42.00
from US\$39.20	
Expected share price return	5.7%
Expected dividend yield	0.6%
Expected total return	6.3%
Market Cap	US\$5,643M

Price Performance (RIC: XRAY.O, BB: XRAY US)



DENTSPLY (XRAY)

Q1 12 results - Making all the right noises

- **Q1 sales forecast to grow 28.2% CER** — We anticipate group sales of \$670.9, up 27.3% reported (28.2% CER). This growth is driven by the acquisition of Astratech, which contributes 27 percentage points. On a regional basis we forecast US sales of \$236.4m (up 1.3% L-f-L), Europe/CIS sales of \$287.8m (flat L-f-L) and all other regions sales of \$146.7m (up 2.5% L-f-L).
- **Non-GAAP EBIT of \$124.1m up 25.1%** — We forecast non-GAAP EBIT of \$124.1m, equivalent to a margin of 18.5% (ex-Precious metals). On a GAAP basis, we forecast and EBIT of \$110.6m after adjustments resulting from the acquisition and restructuring activity, up 12.2%.
- **Anticipate non-GAAP Net Income of \$85.6m, up 21.4%** — With a lower tax rate (23.0% vs 25.1%) but higher net financial expense of \$11.6m vs. \$4.6m (as a result of the Astratech financing), we forecast non-GAAP net income of \$85.6m, equivalent to a non-GAAP diluted EPS of \$0.60
- **Reiterate Neutral, making all the right noises, but still have some concerns** — We encouraged by developments at Dentsply since our initiation and these have gone some way to addressing our concerns. However, while we believe that Dentsply can outperform in implants, the market remains difficult, which brings into question the price paid for the acquisition. The stock offers 12.8% EPS growth (11-16E CAGR); applying a PEG ratio of 1.4, this leads us to a PE of 18x and a target price of \$42.00 (previously \$39.20), we therefore reiterate our Neutral recommendation.
- **Results to be released at 1200 UK / 0700 ET on May 1** — this will be followed by a conference call 1330 UK / 0830 ET. Dial-in: US (888) 204-4317; International (913) 312-0411. Conference ID # is 5693504.
- **Model update to reflect non-GAAP items** — We have taken this opportunity to update our model to better disclose the GAAP and non-GAAP items.

DENTSPLY (USD)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales (\$M)	2,221.0	2,537.7	3,032.3	3,158.1	3,297.0
Net Income (\$M)	283.9	290.9	328.8	362.3	406.2
Diluted EPS (\$)	1.94	2.03	2.29	2.52	2.83
Diluted EPS (Old) (\$)	1.82	2.01	2.02	2.36	2.57
PE (x)	20.4	19.6	17.3	15.7	14.0
EV/EBITDA (x)	12.9	16.7	12.9	11.6	10.2
DPS (\$)	0.20	0.19	0.24	0.25	0.28
Net Div Yield (%)	0.5	0.5	0.6	0.6	0.7

Figure 7. Dentsply Q1 12 preview

	Reported	Citi	Consensus	Citi vs. Cons
Year end December (US\$ m)	Q1 11	Q1 12E	Q1 12E	Q1 12E
Sales (ex-precious metals)	527.0	670.8		
% change CER	4.6%	28.2%		
% change y-o-y	6.0%	27.3%		
Net sales	570.5	730.5	718.8	1.6%
% change CER	4.6%	28.2%		
% change y-o-y	4.5%	28.0%	26.0%	
COGS	-270.5	-351.5	-332.8	
% sales (ex-PM)	51.3%	52.4%		
Gross profit	300.0	379.0	386.0	-1.8%
Gross profit margin (ex-PM)	56.9%	56.5%		
Gross profit margin	52.6%	51.9%	53.7%	
% change y-o-y	6.4%	26.3%	28.7%	
S,G&A (Non-GAAP)	-200.8	-254.9		
% sales (ex-PM)	38.1%	38.0%		
EBIT (non GAAP)	99.2	124.1		
EBIT margin (ex-PM)	18.8%	18.5%		
% change y-o-y	5.0%	25.1%		
Amortisation of purchased intangible assets	0.0	-9.6		
Acquisition related activities	0.0	0.0		
Exceptional items	0.0	-0.5		
S,G&A (GAAP)	-200.8	-265.0		
% sales (ex-PM)	38.1%	39.5%		
Restructuring and other costs	-0.6	-3.4		
% sales (ex-PM)	0.1%	0.5%		
EBIT (GAAP)	98.6	110.6	108.0	2.4%
EBIT margin	17.3%	15.1%	15.0%	
% change y-o-y	10.4%	12.2%	9.6%	
Interest expense	-6.3	-12.2		
Interest income	1.8	0.6		
Other financials	-0.1	0.0		
non-GAAP financials adjustment	0.0	0.0		
Net financials non-GAAP	-4.6	-11.6		
Net financials	-4.6	-11.6		
Pre-tax profit (non-GAAP)	94.6	112.5		
% change y-o-y	6.8%	18.9%		
Pre-tax profit (GAAP)	94.0	99.0	93.4	6.0%
% change y-o-y	12.6%	5.4%	-0.7%	
Total tax (non-GAAP)	-23.8	-25.9		
Tax rate	25.1%	23.0%		
Tax on non-GAAP items	-0.3	-4.0		
Tax rate	43.3%	30.0%		
Income tax related adjustments	0.2	0.0		
Total tax (GAAP)	-23.7	-21.8		
Tax rate	25.2%	22.0%		
Post tax profit (non-GAAP)	70.8	86.6		
% change y-o-y	7.4%	22.3%		
Post tax profit	70.3	77.2		
% change y-o-y	13.0%	9.8%		
Equity in net loss of unconsol. affiliated company	-0.8	0.0		
Equity earnings(loss) of unconsolidated company	0.9	-0.5		
Net income (non-GAAP)	70.9	86.1		
% change y-o-y	7.6%	21.4%		
Net income	69.5	77.2		
% change y-o-y	11.7%	11.1%		
Net income attributable to non-controlling interests	-0.4	-0.5		
Non-GAAP adjustment	0.0	0.0		
Net income attributable to DENTSPLY intl (non-GAAP)	70.6	85.6	73.9	15.9%
% change y-o-y	7.8%	21.4%	4.7%	
Net income attributable to DENTSPLY intl (GAAP)	69.1	76.7	69.1	11.0%
% change y-o-y	11.7%	11.0%	0.0%	
No. basic shares	141.614	141.386		
No. diluted shares	144.044	143.553		
Basic EPS (non-GAAP)	0.50	0.61		
% change y-o-y	11.7%	21.6%		
Diluted EPS (non-GAAP)	0.49	0.60	0.51	17.0%
% change y-o-y	11.7%	21.8%	4.1%	
Basic EPS (GAAP)	0.49	0.54		
% change y-o-y	15.8%	11.2%		
Diluted EPS (GAAP)	0.48	0.53	0.48	11.3%
% change y-o-y	15.8%	11.4%	0.1%	

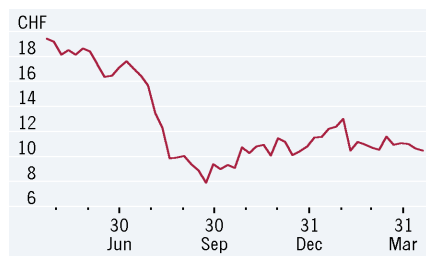
Source: Company reports, Citi Investment Research and Analysis and Consensus from Bloomberg/Factset

Company Focus

■ Company Update

Sell	3
Price (20 Apr 12)	SFr10.64
Target price	SFr7.60
Expected share price return	-28.6%
Expected dividend yield	1.9%
Expected total return	-26.7%
Market Cap	SFr1,317M
	US\$1,439M

Price Performance (RIC: NOBN.VX, BB: NOBN VX)



Nobel Biocare Holding AG (NOBN.VX) Q1 results preview – potential for further slowdown in EMEA

- **Q1 sales forecast to decline 0.2% CER** — We anticipate sales of €148.3m impacted by further decline in EMEA, which offsets continued strong growth in Americas. Adjusted for currency, we forecast EMEA sales down 5.5% to €59.6m, Americas sales up 5.5% to €57.2m and Asia/Pacific sales of €31.5m, up 2.5%. With a positive FX effect of 3.6%, we forecast reported growth of 3.4% for the group.
- **Anticipate EBIT margin of 11.2%** — With selling expenses in line (39.0% of sales vs. 38.9%), increased investment in R&D (6.4% vs. 5.0%) and higher admin expenses (19.0% vs. 20.0%), we forecast an EBIT pre-exceptionals margin of 11.2%, equivalent to a 190bp decline in EBIT margin and an EBIT of €16.6m.
- **Forecast Net income pre-exceptionals of €10.5m** — We expect net income pre-exceptionals of €10.5m, down 36.5% due to a net financial expense of €2.2m (vs. a net financial income of €2.2m in Q1 2011) and a higher tax rate (26.5% vs. 21.0%). This leads us to forecast EPS of €0.09.
- **Market conditions remain challenging; reiterate Sell** — We continue to believe that the implant market will remain challenging in 2012, with no sign of a recovery in European growth rates. Despite this, Nobel continues to trade on a high multiple (27x our 2013 estimate which includes the US medical devices tax) whilst offering 15% EPS growth (11-16E CAGR). We believe this is unjustified and reiterate our sell recommendation with a SFr7.60 target price.
- **Results released at 5:45am UK time 27 April** — This will be followed by a conference call at 0730 UK / 0830 CET. Dial-in: Europe +41 (0)91 610 56 00; UK +44 (0)203 059 5862; USA +1 (1) 866 291 41 66.

Nobel Biocare Holding AG (EUR)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales (€M)	576.6	569.2	603.6	624.5	656.6
Net Income (€M)	45.8	44.5	46.4	47.5	57.2
Diluted EPS (€)	0.37	0.30	0.31	0.32	0.38
Diluted EPS (Old) (€)	0.37	0.30	0.31	0.32	0.38
PE (x)	23.9	29.6	28.4	27.8	23.1
EV/EBITDA (x)	9.7	10.9	10.7	10.2	8.8
DPS (€)	0.21	0.13	0.17	0.17	0.21
Net Div Yield (%)	2.4	1.4	1.9	1.9	2.3

Figure 8. Nobel Biocare Q1 12 preview

December year end (€m)	Reported Q1 11	Citi Q1 12E
EMEA	63.2	59.6
% change CER	-1.2%	-5.5%
% change		-5.6%
Americas	52.0	57.2
% change CER	8.8%	5.5%
% change		10.0%
Asia/Pacific	28.3	31.5
% change CER	-4.8%	2.5%
% change		11.5%
Revenue	143.5	148.3
% change CER	1.5%	-0.2%
% change	4.9%	3.4%
Cost of sales	-34.4	-34.8
% sales	23.9%	23.5%
Gross profit	109.1	113.6
Gross margin	76.1%	76.5%
Selling expenses	-55.9	-57.9
% sales	38.9%	39.0%
Admin expenses	-27.3	-29.6
% sales	19.0%	20.0%
R&D	-7.2	-9.5
% sales	5.0%	6.4%
EBIT pre-restructuring	18.8	16.6
% change	-31.1%	-11.7%
EBIT margin pre-exceptionals	13.1%	11.2%
Restructuring costs	-3.7	0.0
EBIT	15.1	16.6
% change	-43.2%	10.0%
EBIT margin	10.5%	11.2%
Net interest	-2.0	-2.2
Net fx	4.3	0.0
Net investment result and other	0.0	0.0
Net financials	2.2	-2.2
Pre-tax profit exceptionals and FX	16.7	14.3
% change	-25.4%	-14.3%
Pre-tax profit exceptionals	21.0	14.3
% change	-60.0%	-31.7%
Pre-tax profit	17.3	14.3
% change	-66.6%	-17.1%
Tax pre-exceptionals and FX	-5.3	-3.8
Tax rate pre exceptionals	31.9%	26.5%
Tax pre-exceptionals	-4.4	-3.8
Tax rate pre exceptionals	21.0%	26.5%
Total tax	-4.4	-3.8
Tax rate	25.5%	26.5%
PAT	12.9	10.5
Net profit pre-exceptionals and FX	11.4	10.5
% change	22.0%	-7.6%
Net profit pre-exceptionals	16.6	10.5
% change	-57.9%	-36.5%
Net profit	12.9	10.5
% change	-66.7%	-18.2%
Net profit margin	9.0%	7.1%
No. of basic shares	122.7	122.8
EPS pre-exceptionals and FX	0.09	0.09
% change	23.1%	-7.6%
EPS pre-exceptionals	0.14	0.09
% change	-57.5%	-36.5%
EPS	0.11	0.09
% change	-66.4%	-18.3%

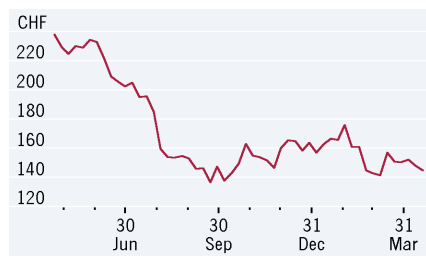
Source: Company reports and Citi Investment Research and Analysis

Company Focus

■ Company Update

Sell	3
Price (20 Apr 12)	SFr146.00
Target price	SFr133.60
Expected share price return	-8.5%
Expected dividend yield	2.3%
Expected total return	-6.2%
Market Cap	SFr2,289M
	US\$2,501M

Price Performance (RIC: STMN.S, BB: STMN SW)



Straumann Holding AG (STMN.S) Q1 sales preview – Europe to remain challenging

- **Q1 group sales forecast to rise 4.4% CER** — We expect further currency headwinds to constrain growth in the European and North American markets. We forecast Q1 12 group sales of SFr188.3m, up 4.4% underlying but flat on a reported basis.
- **Europe sales up 1.0% CER** — We anticipate continued challenging conditions in Europe for Straumann, but believe the company will outperform Nobel in the region due to a higher exposure to Northern Europe. We forecast sales of SFr108.0m, up 1.0% CER but negatively impacted by an FX effect of 6.2% to bring reported growth to -5.2%.
- **Solid growth continue in North America, up 8.0% CER** — Despite strong comparisons, we forecast continued strong growth in North America. We anticipate sales of SFr42.4m up 5.8% reported.
- **Pick-up in Asia Pacific growth expected** — As the market conditions in Japan continue to improve, we forecast further improvement in Asia Pacific sales momentum. We anticipate sales of SFr27.9m, up 9.0% CER, 9.4% reported.
- **Rest of the world sales up 20.0% CER** — We forecast RoW sales of SFr10.0m, up 20.0% CER, 12.3% reported, an improvement on the 14.4% CER growth seen in Q4 11.
- **Reiterate Sell recommendation** — We continue to believe that market prospects do not support the current valuation. While we are impressed by Straumann's ability to outperform the market and the excellent management team, we do not believe that near term underlying market growth is strong enough to support the current valuation. We reiterate our Sell recommendation with a SFr133.60 target price.
- **Results released Thursday 26 April at 6:00am UK time** — This will be followed by a conference call at 0730 UK / 0830 CET. Dial-in: Europe & Rest of World: +41 (0)91 610 56 09; UK: +44 (0)203 059 58 62; USA: +1 (1)866 291 41 66.

Straumann Holding AG (CHF)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales (SFrM)	737.6	693.6	717.9	759.4	818.3
Net Income (SFrM)	131.1	60.4	117.3	134.8	152.4
Diluted EPS (SFr)	8.37	3.87	7.51	8.63	9.76
Diluted EPS (Old) (SFr)	8.37	3.87	7.51	8.63	9.76
PE (x)	17.4	37.7	19.4	16.9	15.0
EV/EBITDA (x)	9.4	12.2	10.5	8.9	7.6
DPS (SFr)	3.75	3.75	3.38	3.78	4.27
Net Div Yield (%)	2.6	2.6	2.3	2.6	2.9

Figure 9. Straumann Q1 12 Sales preview

Year end Dec (CHF m)	Reported Q1 11	Citi Q1 12E
Europe	113.9	108.0
% change	-8.9%	-5.2%
% change CER	2.2%	1.0%
North America	40.1	42.4
% change	-3.6%	5.8%
% change CER	8.0%	8.0%
Asia Pacific	25.5	27.9
% change	0.0%	9.4%
% change CER	2.2%	9.0%
ROW	8.9	10.0
% change	25.4%	12.3%
% change CER	26.9%	20.0%
Total sales	188.4	188.3
% change	-5.5%	0.0%
% change CER	4.3%	4.4%

Source: Company reports and Citi Investment Research and Analysis

Sirona

Company description

Sirona is the global leader in dental CAD/CAM solutions and imaging systems. The company also sells dental treatment centres and hand pieces. The dominant position in CAD/CAM (99% share of chair side milling) has been achieved through pioneering innovation.

Investment strategy

We rate Sirona Buy. On our estimates, the company trades at a discount to the other dental manufacturers. We believe this to be unjustified given our forecast superior earnings growth, its strong balance sheet and good fundamentals.

Penetration of new technology in both CAD/CAM and Imaging remains low and high growth in these more profitable segments should deliver margin expansion (150bp gross margin improvement (2011-2016E)).

As the economy improves, we also anticipate a pick-up in CAD/CAM sales growth. We believe any current slowdown is transient and is not an indication of a stagnation in penetration.

Valuation

Our target price is \$55.80. Due to the cyclical nature of the business, the current economic environment and the nature of the market in which Sirona operates, we believe that a PE based valuation is most appropriate. Sirona has traded at a discount to the other dental manufacturers, historically; we believe that this is unjustified given the superior earnings growth on offer 14% (11-15 CAGR ex-buyback). The dental sector currently trades on PEG ratio of 1.4. If we apply this to Sirona, we arrive at a PE multiple of 19x and a target price of \$55.80. We also do a cross-check: we estimate the company's WACC at 10.6%, assuming a risk-free rate of 2%, an equity market risk premium of 9% and a beta of 1. We then apply this WACC to free cash flow, which we forecast explicitly to 2016 and to which we then apply a fading growth rate to 2020. Beyond 2020, we assume a terminal growth rate of 1.5%. Consequently, this method would give a value of \$54.3 per share.

Risks

The following factors may prevent the Sirona shares from achieving our target price:

New entrants into the CAD/CAM market with superior product offerings:

In certain areas of CAD/CAM, Sirona has market shares as high as 99%. There is a risk that a new entrant could make in-roads with superior products to Sirona's offering.

Distributor risk:

Sirona sells ~44% of equipment through two distributors. The two companies are important partners to Sirona and if there was a change in this relationship, which meant either company decided not to buy from Sirona, this could materially affect the sales development of Sirona.

Macro-economic changes:

We use CIRA economists' forecasts for growth to drive our market models. If these forecasts are wrong and global growth is stronger than expected over the next five years, these markets could return higher than forecast growth leading to sales and earnings growth above our expectations.

Conversely, if our economists' forecasts are proven not to be negative enough, the market may deliver lower growth than we expect, which would in turn lead to the shares not achieving our target price.

R+D shortcomings

Sirona operates in a number of industries where innovation remains crucial to further success. If Sirona's research and development efforts were to fail to deliver ground breaking products, the company may lose share to competitors.

DENTSPLY

Company description

Dentsply is a global leader in dentistry, a 'one stop shop' for the dentist, with a combined market share of ~20%. The company has built this position through multiple acquisitions and successful research and development. Dentsply products are sold in over 120 countries. The company's two largest markets are the US and Germany. The company generates ~13% of sales in emerging markets including China.

Investment strategy

We rate Dentsply Neutral as we believe the pros are balanced out by the cons. In addition, the current valuation looks fair given the 12.8% earnings growth on offer 11-16E. While the company offers defensive growth in a number of territories, there are two challenges facing the company that we think need to be successfully overcome: the integration of the acquired Astratech implant business and the lack of a presence in prosthetics, thus missing out on the CAD/CAM revolution.

Valuation

In keeping with the other stocks in the dental sector, we choose to use a PE-based valuation for Dentsply. This is part due to the cyclical element of the business, particularly in implants, which now account for ~20% of Dentsply sales. The stock currently offers 12.8% EPS CAGR (11-16E). We adopt a PEG of 1.4, in line with the sector, to arrive at a target price of \$42.00.

If we were to use a DCF calculation, we would arrive at a similar fair value, implying the same recommendation. We estimate a risk-free rate of 2%, an equity market risk premium of 9% and a beta of 1 to arrive at a WACC of 9.4% for the company. We then apply this WACC to free cash flow, which we forecast explicitly to 2016 and to which we then apply a fading growth rate to 2020. Beyond 2020, we assume a terminal growth rate of 1.5%. Consequently, we arrive at a value of \$43.20 per share.

Risks

The following factors may prevent Dentsply from achieving our target price:

Strategic move in CAD/CAM

It is our view that Dentsply would benefit from increasing its presence in the CAD/CAM market. If the company were to make a significant move into the CAD/CAM market either through an in-house development or external acquisition, this could accelerate sales growth leading to the share price exceeding our expectations.

Economic forecasts for Implant market

We use CIRA economists' forecasts for growth to drive our implant market models. If these forecasts are wrong and global growth is stronger than expected over the next five years, the implant business could return higher forecasts than expected, leading to sales and earnings growth above our forecasts.

Conversely, if our economists' forecasts are proven not to be negative enough, the implant market may deliver lower growth than we expect which would in turn lead to the share price underperformance.

Distributor risk:

Dentsply generates a significant proportion of sales through a small number of distributors. If one of these companies were to change its relationship and decided not to buy from Dentsply, it could materially affect our sales forecasts.

Supplier risk:

Dentsply is dependent on a number of suppliers. If an adverse event were to effect the supply chain, this could impact on the company's revenues

Nobel Biocare Holding AG

Company description

Nobel Biocare is the joint leader in the c.\$3bn dental implant market with a ~25% share. The company was the first to offer vertical integration with the manufacture of the dental implant screw and the final tooth prosthesis.

Investment strategy

We rate Nobel Biocare Sell. Nobel is suffering on two fronts: The dental implant market is weak, our analysis suggests that we will not see high single growth within the next five years. The company also continues to suffer from a number of internal issues. On the H1 11 conference call, the new CEO identified a number of issues and announced restructuring changes to improve the level of service the company offers to dentists. Nobel is also having to reconsider its strategy in the Procera market where aggressive competition in simple copings is impacting on growth. In light of this, we believe that Nobel's current earnings multiple is unjustified.

Valuation

Due to the cyclical nature of the implant manufacturers and the market in which they operate, we believe that a PE based valuation is most appropriate. By our estimates, Nobel currently trades on a 2013 PE multiple of 24.2x, vs. a four year average of 17x. We believe that this is unjustified given the 15% EPS growth on offer (11-16E CAGR).

The dental sector currently trades on a PEG ratio of 1.4. Given the company specific issues we believe that Nobel Biocare should trade at a discount to both Straumann and the Sector. We assume a PEG of 1.1 to arrive at a 2013E PE of 16x. This implies a fair value of CHF7.60, assuming an FX rate of CHF 1.21 to €1.

Risks

Our view on Nobel Biocare reflects our assessment of industry- and company-specific risk factors, which could prevent the shares achieving our target price.

We use CIRA economists' growth forecasts to drive our market model. If these forecasts are wrong and global growth is stronger than expected over the next 5 years, the implant market could return to high single/double digit growth ahead of expectations, leading to sales and earnings growth above our expectations.

Conversely, if our economists' forecasts are proven not to be negative enough, the market may deliver lower growth than we expect which would lead to share prices falling below our expectations.

Following the acquisition of AstraTech by Dentsply, which completed last quarter, there has been increased speculation of further M&A activity in the dental implant sector. While Nobel Biocare's 98% free float might make it a potential target, we struggle to identify a potential suitor in the current climate, and believe that any potential acquirer would prefer to see the restructuring plans yield improved sales growth and margin recovery before making an approach. However, if the stock were to be acquired, the shares may fail to meet our target price. We continue to believe that there has not been a change in the underlying dental market and that dentists are still prepared to pay a premium for the products of Nobel due to the higher levels of supporting clinical evidence and superior levels of service that the companies provide. If this view is wrong, then Nobel could see sales earnings decline as discount manufacturers cannibalise the premium market.

Straumann Holding AG

Company description

Straumann is a major player in the \$2.9bn dental implant and CAD/CAM market with a c.25% market share. The company has a solid reputation for clinical excellence and maintains strong links to the dental community through its relationship with the ITI (International Team for Implantology).

Investment strategy

We rate Straumann Sell. Straumann is widely regarded to be the more defensive, stable player in the premium dental implant segment and we expect it to continue to grow sales above the market rate. However, with market growth expected to be low to mid-single digit over the next five years, we do not believe that Straumann can deliver the necessary earnings growth to support the current earnings multiple.

Valuation

We believe Straumann's current PE multiple is too high given our expectations for market growth. We forecast a 2011-16E EPS CAGR of 13% and use a PEG of 1.2 (inline with the sector) to arrive at a fair one-year forward PE multiple of 16x. This leads us to a target price of CHF133.60.

By contrast, our DCF valuation, assuming a WACC of 9.8% and terminal growth of 1%, arrives at a fair value of CHF163.1. We believe that this may be a reflection of the longer-term value, once economic conditions stop hindering market growth. However, over the next 12 months, in the face of uncertain economic conditions, we feel that a PE-based approach is more relevant.

Risks

Our view on Straumann reflects our assessment of industry- and company-specific risk factors which could prevent the shares achieving our target price.

Our view on Straumann reflects our assessment of industry- and company-specific risk factors which could prevent the shares achieving our target price.

We use CIRA economists' forecasts for growth to drive our market model. If these forecasts are wrong and global growth is stronger than expected over the next 5 years, the implant market could return to high single/double digit growth ahead of expectations, leading to sales and earnings growth above our expectations.

Conversely, if our economists' forecasts are proven not to be negative enough, the market may deliver lower growth than we expect which would lead to share prices falling below our expectations.

We continue to believe that there has not been a change in the underlying dental market and that dentists are still prepared to pay a premium for the products of Straumann due to the higher levels of supporting clinical evidence and superior levels of service that the companies provide. If this view is wrong, then Straumann could see sales earnings decline as discount manufacturers cannibalise the premium market. This would eventually lead to share prices falling below our target.

Any high incidence of surgical failure through poor implant placement is likely to lead to the public perception that the dental implant procedure is risky and problematic. The public is likely to consider the products to be faulty rather than the dentists. This would affect Straumann's business if patient demand falls.

Straumann's conservative approach may prove to be uncommercial. By slowing the rate of new product development to concentrate on longer clinical trials, the company may miss out on product mix growth and allow smaller more innovative companies to take share. If the impact from any of these factors proves to be more negative than we anticipate, the stock will likely have difficulty achieving our financial and price targets. However, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

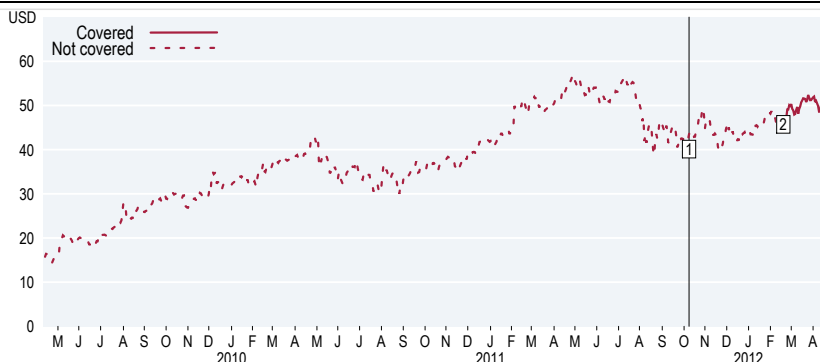
IMPORTANT DISCLOSURES

Sirona (SIRO.O)

Ratings and Target Price History Fundamental Research

Analyst: Jonathan Beake

Covered since February 20 2012



Date	Rating	Target Price	Closing Price
1 8-Oct-11	Stock rating system changed		

* Indicates change

Date	Rating	Target Price	Closing Price
2 19-Feb-12	*1	*55.80	47.03

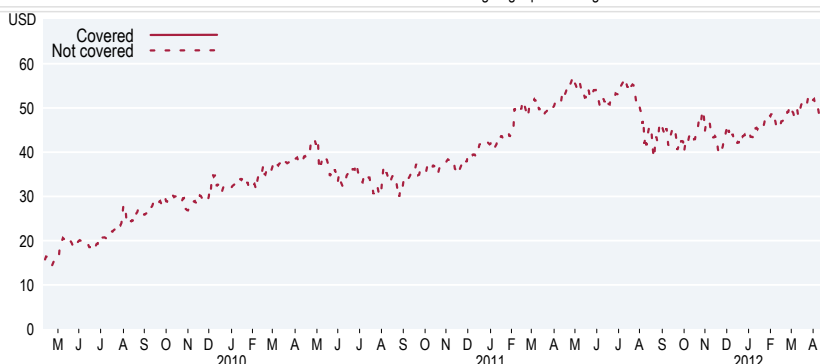
Rating/target price changes above reflect Eastern Standard Time

Sirona (SIRO.O)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Jonathan Beake

Covered since February 20 2012



* Indicates change

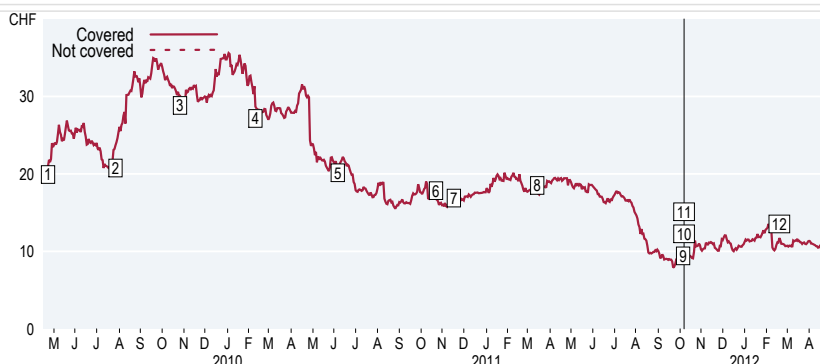
Rating/target price changes above reflect Eastern Standard Time

Nobel Biocare Holding AG (NOBN.VX)

Ratings and Target Price History Fundamental Research

Analyst: Jonathan Beake

Covered since September 16 2010



Date	Rating	Target Price	Closing Price
1 21-Apr-09	*3M	17.00	19.92
2 28-Jul-09	*2M	*23.00	23.70
3 27-Oct-09	*1M	*35.20	30.18
4 10-Feb-10	1M	*34.50	28.69

* Indicates change

Date	Rating	Target Price	Closing Price
5 7-Jun-10	1M	*25.00	20.60
6 22-Oct-10	1M	*22.60	16.75
7 17-Nov-10	1M	*24.00	16.15
8 15-Mar-11	1M	*25.40	18.01

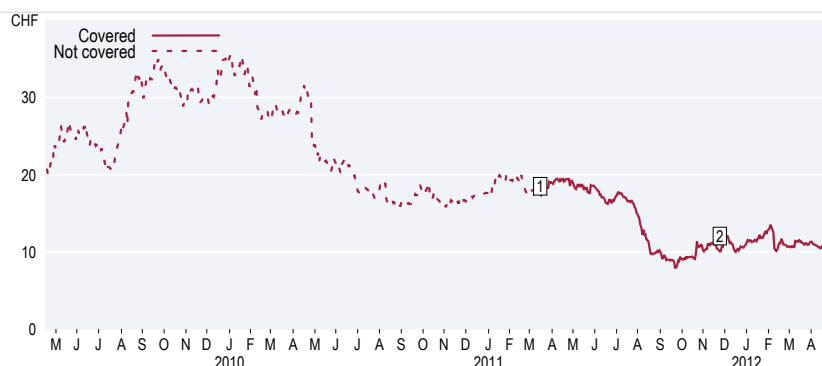
Date	Rating	Target Price	Closing Price
9 6-Oct-11	*3M	*7.20	9.01
10 7-Oct-11	Stock rating system changed		
11 7-Oct-11	*3	7.20	9.41
12 19-Feb-12	3	*7.60	11.14

Rating/target price changes above reflect Eastern Standard Time

Nobel Biocare Holding AG (NOBN.VX)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Jonathan Beake
Covered since September 16 2010



	Date	Rating	Target Price	Closing Price
1	16-Mar-11	*ADD MP	-	17.44

* Indicates change

	Date	Rating	Target Price	Closing Price
2	24-Nov-11	*REM MP	-	10.08

Rating/target price changes above reflect Eastern Standard Time

Straumann Holding AG (STMN.S)

Ratings and Target Price History Fundamental Research

Analyst: Jonathan Beake
Covered since September 16 2010



	Date	Rating	Target Price	Closing Price
1	28-Jul-09	*2M	*224.00	228.30
2	18-Jan-10	2M	*295.00	293.00
3	16-Feb-10	2M	*255.00	252.50

* Indicates change

	Date	Rating	Target Price	Closing Price
4	9-Feb-11	2M	*253.00	242.00
5	20-Apr-11	2M	*261.00	237.80
6	6-Oct-11	*3M	*122.10	137.70

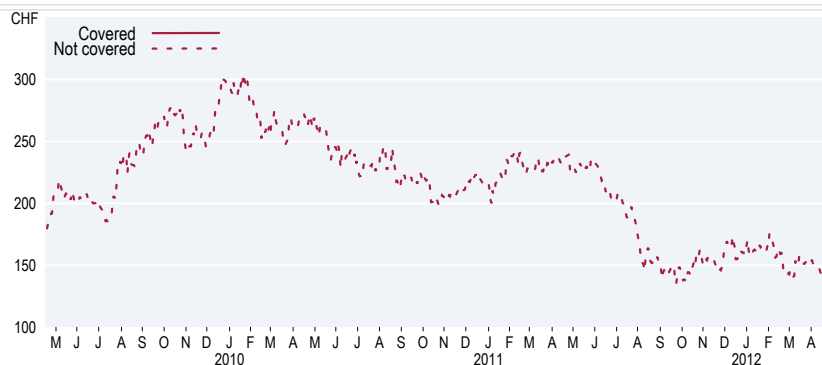
	Date	Rating	Target Price	Closing Price
7	7-Oct-11	Stock rating system changed		
8	7-Oct-11	*3	122.10	144.50
9	4-Apr-12	3	*133.60	151.20

Rating/target price changes above reflect Eastern Standard Time

Straumann Holding AG (STMN.S)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Jonathan Beake
Covered since September 16 2010



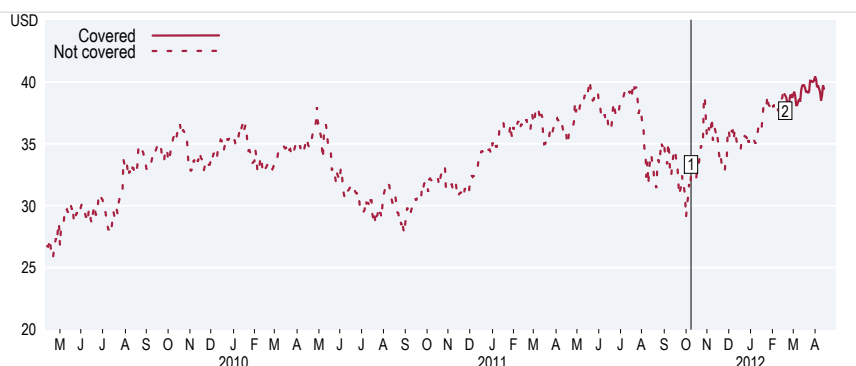
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

DENTSPLY (XRAY.O)

Ratings and Target Price History Fundamental Research

Analyst: Jonathan Beake
Covered since February 20 2012



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		

* Indicates change

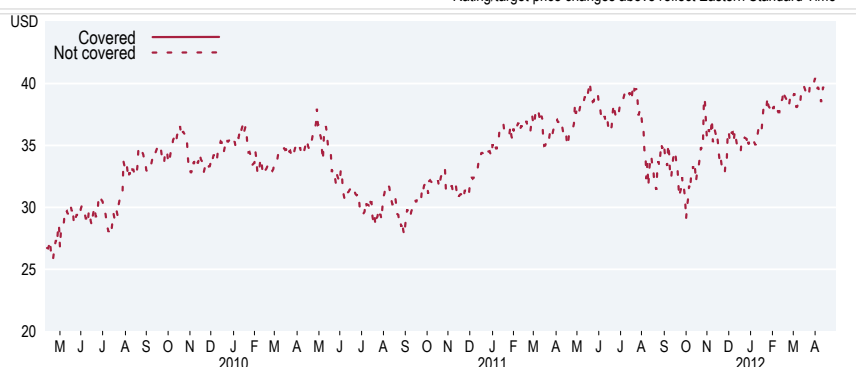
	Date	Rating	Target Price	Closing Price
2	19-Feb-12	*2	*39.20	39.05

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DENTSPLY (XRAY.O)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Jonathan Beake
Covered since February 20 2012



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Data current as of 31 Mar 2012

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12 Month Rating			Relative Rating		
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44%	42%	40%	47%	42%	43%

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