

Dentsply Sirona, Inc.

Good progress in FY23 with cost initiatives key to FY24

Maintain Rating: NEUTRAL | PO: 38.00 USD | Price: 33.30 USD

Core growth a highlight, FY24 build relies on savings

XRAY posted strong 4Q results with strength across Orthodontics, Essential Dental, and Wellspect offsetting weaker Connected Technology revs. 4Q Revs/EBITDA/EPS beat ST/BofA estimates on more tempered expectations heading into the print. Core sales growth of 1.9% was meaningfully ahead of ~1% decline expected by the ST. Meanwhile, the FY24 EPS guide was in-line with ST and prior expectations for DD growth. The FY24 EPS build at the midpoint considers just \$0.04 contribution from organic growth with most of the delta to FY23 coming from restructuring savings (~60% of the EPS growth). While execution through 2023 was solid, and we like the steps being taken to address margins and company culture, our expectations remain tempered in the near-term given elevated execution risk due to a still challenging macro. We look to the call for more details on the cadence of savings embedded in the FY24 guide and expectations across each segment. We maintain our Neutral rating heading into this morning's 8:30AM ET call.

Solid 4Q results with Revs/EPS ahead of the ST/BofA

Total revenues of \$1,012MM beat VA consensus estimates of \$967.7MM and BofA's estimate of \$962.7MM. Adjusted EBITDA of \$173MM beat VA consensus estimates of \$164.5MM and BofA's estimate of \$157.8MM. Adjusted EPS of \$0.44 beat our VA consensus aligned estimate of \$0.43. Total organic sales growth of 1.9% was meaningfully ahead of VA consensus estimates of (0.8)% and BofA's estimate of (1.9)%. Connected Technology Solutions (CTS) organic sales growth was (8.3)%, Essential Dental Solutions (EDS) organic sales growth was 3.4%, Orthodontic and Implant Solutions (OIS) organic sales growth was 10.6%, and Wellspect Healthcare (WH) organic sales growth was 16.9%. CTS revenue of \$319.0MM missed VA consensus estimates of \$325.2MM and BofA's estimate of \$322.7MM, EDS revenue of \$358.0MM beat VA consensus estimates of \$339.9MM and BofA's estimate of \$339.6MM, OIS revenue of \$259.0MM beat VA consensus estimates of \$233.5MM and BofA's estimates of \$231.7MM, and WH revenue of \$76.0MM beat VA consensus estimates of \$67.3MM and BofA's estimate of \$68.8MM.

FY24 EPS guide in-line with ST/BofA

The official FY24 guide calls for double-digit EPS growth in-line VA consensus and management's earlier commentary. Net sales guidance of \$3.96-\$4.02Bn brackets VA consensus estimates of \$3.983Bn, but is below BofA's estimate of ~\$4.103B. This represents total organic growth of flat to 1.5% vs. VA consensus/BofA expectations at 2.6%/3.4%, respectively. Adj. EPS guidance of \$2.00-\$2.10 or ~12% y/y growth brackets VA consensus estimates of \$2.02 and BofA's estimate of \$2.08.

Key topics for the call: FY24 guide and core trends

The key focus for the call will be on the components of the FY24 guide, including the timing/cadence of restructuring savings. We also look for commentary around dental trends across geographies and the impact to the segment growth build.

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Stock Data

Price	33.30 USD
Price Objective	38.00 USD
Date Established	2-Jan-2024
Investment Opinion	B-2-7
52-Week Range	26.27 USD - 43.24 USD
Mrkt Val (mn) / Shares Out (mn)	7,055 USD / 211.9
Free Float	99.1%
Average Daily Value (mn)	101.54 USD
BofA Ticker / Exchange	XRAY / NAS
Bloomberg / Reuters	XRAY US / XRAY.OQ
ROE (2023E)	10.4%
Net Dbt to Eqty (Dec-2022A)	41.4%
ESGMeter™	High

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Exhibit 1: XRAY Variance Analysis

Revs/Adj. EBITDA/Adj. EPS beat ST/BofA with stronger EDS, OIS, and WH revenue offsetting weaker CTS.

(\$ in millions, except per share data)

Fiscal Year Ending

December 31,	4Q'23E	4Q'23A	Δ vs. BofA (%)	Δ vs. BofA	VA Consensus	Δ vs. VA Consensus (%)	Δ vs. VA Consensus	4Q'22A	Y-o-Y Growth
Revenue									
Connected Technology Solutions	\$322.7	\$319.0	(1.1%)	Miss	\$325.2	(1.9%)	Miss	\$344.0	(7.3%)
Essential Dental Solutions	\$339.6	\$358.0	5.4%	Beat	\$339.9	5.3%	Beat	\$343.0	4.4%
Orthodontic and Implant Solutions	\$231.7	\$259.0	11.8%	Beat	\$233.5	10.9%	Beat	\$234.0	10.7%
Wellspect Healthcare	68.8	\$76.0	10.4%	Beat	\$67.3	13.0%	Beat	\$62.0	22.6%
Total Revenue	\$962.7	\$1,012.0	5.1%	Beat	\$967.7	4.6%	Beat	\$983.0	3.0%
Cost of Revenue	427.4	454.0	6.2%	Miss	423.5	7.2%	Miss	431.0	5.3%
Gross Profit	\$535.3	\$558.0	4.2%	Beat	\$544.2	2.5%	Beat	\$552.0	1.1%
SG&A	356.2	372.0	4.4%	Miss	371.8	0.1%	Miss	355.0	4.8%
R&D	48.1	43.0	(10.7%)	Beat	44.8	(4.0%)	Beat	43.0	0.0%
Adjusted EBIT	\$130.9	\$143.0	9.2%	Beat	\$133.0	7.5%	Beat	\$154.0	(7.1%)
Depreciation & Amortization	28.9	33.0	14.3%	Miss	31.7	4.2%	Miss	28.0	17.9%
EBITDA	\$157.8	\$173.0	9.6%	Beat	\$164.5	5.2%	Beat	\$170.0	1.8%
Interest Expense	19.8	30.0	51.5%	Miss	n/a			19.0	57.9%
Pre-Tax Income	\$119.1	\$111.0	39.9%	Miss	\$114.9	(3.4%)	Miss	\$123.0	(557.1%)
Income Taxes	30.5	13.0	134.9%	Beat	24.4	(46.8%)	Beat	24.0	(45.8%)
Adjusted Net Income	\$89.6	\$93.0	(3.7%)	Beat	\$91.2	1.9%	Beat	\$99.0	(6.1%)
Adjusted EPS	\$0.43	\$0.44	3.7%	Beat	\$0.43	1.7%	Beat	\$0.46	(4.2%)
Fully Diluted Share Count	210.6	210.9	0.1%		210.4	0.2%		215.1	(2.0%)

Source: Company Filings, Visible Alpha, and BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Dentsply Sirona, Inc. (XRAY)

Our \$38 price objective is based on about 12.5x our CY24E EBITDA estimate. We note that this multiple is about 0.5x below its five-year average, due to a slower total growth rate (vs. peak) and the uncertainty around profit progression.

Downside risks are a slowdown in total demand tied to lagging equipment sales (either from failure to reignite growth or continued distribution channel challenges), as well as a slowdown in the consumables market, a recovery in Byte growth, an inability to achieve the company's margin targets (including the successful completion of the targeted restructuring plan).

Upside risks to our PO are better-than-expected equipment sales from successful sales force and marketing efforts and the penetration of Primescan and affiliated products, as well as strong consumables sales driven by a faster rebound in the consumables market, and heavy investment in margin expansion from cost savings benefits that drive overachievement of the initial savings targets that are critical to the FY26 EPS target.

Analyst Certification

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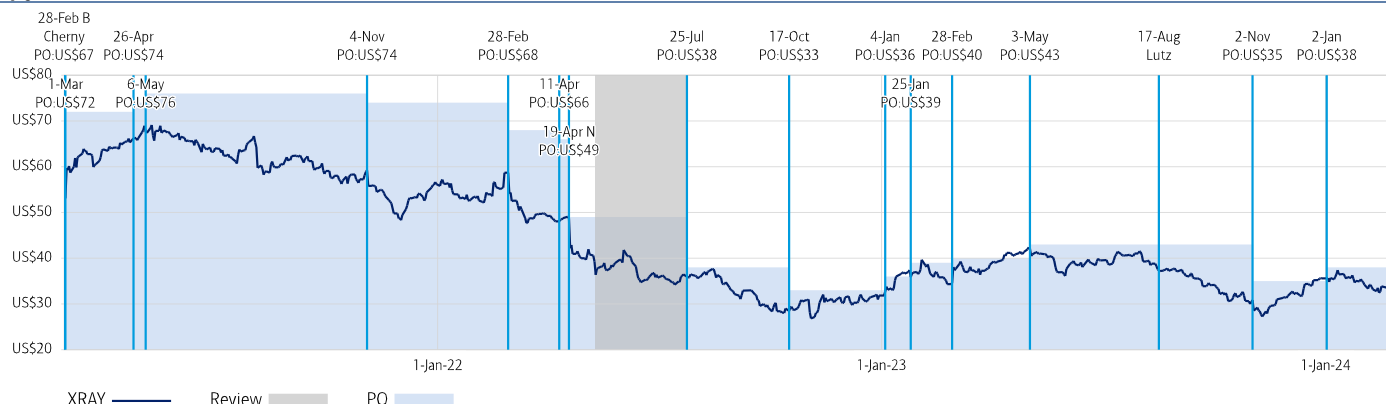
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Dentsply Sirona (XRAY) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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