Long: DENTSPLY SIRONA Inc. **(NASDAQ: XRAY)**
~88.5% Upside, ~30.0% IRR

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Company Overview: The Mercedes of Dentistry - Largest Manufacturer & Distributor of Dental Products

Dentsply Sirona is a leading global manufacturer and provider of dental products and technologies for the professional dental community, including general practitioners and specialists. They primarily operate across 4 main segments: *Connected Technology Solutions (CEREC and imaging systems), Essential Dental Solutions (everyday critical dental consumables), Orthodontic & Implant Solutions (clear aligners and implant products), and Wellspect Healthcare (urology and continence care solutions).*

The Opportunity: H2'FY23 and HY'1FY24 Slowdown In Revenues Lead to Downwards Revision Cycle

Following Q3'FY23 top line misses by ~6% and 3% on *Connected Technology* solutions and *Essential Dental Solutions* street revised sales estimates down from a low single digit grower to low single digit declines in sales as dental service organisations (DSOs) began going downstream and purchasing lower price products as they looked to save on costs. This also saw the FY +1 TEV / EBITDA multiple trading down to ~9.5x from ~12.6x in March of this year. This has been during an industry wide shift to more specialized hardware, with an increasing barrier to entry. When building a reverse DCF, at a share-price of $26, we see the following priced in:

Discounted Cash Flow					**Hist.**	**Projected**				
Fiscal Period					FY2023A	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E
Fiscal Period Ending					31-Dec	30-Dec	30-Dec	30-Dec	30-Dec	30-Dec
Connected Technology Solutions					1,169.0	1,110.6	1,055.0	1,002.3	952.2	904.5
Y/Y Growth (%)						(5.0%)	(5.0%)	(5.0%)	(5.0%)	(5.0%)
Essential Dental Solutions					1,468.0	1,350.6	1,296.5	1,270.6	1,245.2	1,220.3
Y/Y Growth (%)						(8.0%)	(4.0%)	(2.0%)	(2.0%)	(2.0%)
Orthodontic and Implant Solutions					1,040.0	1,071.2	1,124.8	1,181.0	1,251.9	1,327.0
Y/Y Growth (%)						3.0%	5.0%	5.0%	6.0%	6.0%
Wellspect Healthcare					288.0	308.2	326.6	343.0	356.7	371.0
Y/Y Growth (%)						7.0%	6.0%	5.0%	4.0%	4.0%
Consolidated Revenue					**3,965.0**	**3,840.4**	**3,802.9**	**3,796.8**	**3,805.9**	**3,822.8**
Y/Y Growth (%)						(3.1%)	(1.0%)	(0.2%)	0.2%	0.4%
Gross Profit						**2,035.4**	**2,015.6**	**2,012.3**	**2,017.1**	**2,026.1**
Gross Profit Margin (%)						53.0%	53.0%	53.0%	53.0%	53.0%
EBIT	345.0	111.0	598.0	(844.0)	(76.0)	576.1	570.4	569.5	570.9	573.4
(+) Depreciation & Amortization	326.0	339.0	346.0	328.0	343.0	365.9	378.5	393.2	409.5	413.4
EBITDA	**671.0**	**450.0**	**944.0**	**(516.0)**	**267.0**	**942.0**	**948.9**	**962.7**	**980.4**	**986.8**
NOPAT	**261.3**	**162.1**	**451.0**	**(760.0)**	**(57.3)**	**455.1**	**450.6**	**449.9**	**451.0**	**453.0**
(+) Depreciation & Amortization	326.0	339.0	346.0	328.0	343.0	365.9	378.5	393.2	409.5	413.4
(-) Capital Expenditure	(123.0)	(87.0)	(142.0)	(149.0)	(149.0)	(152.8)	(158.1)	(164.2)	(171.0)	(172.6)
(-) Change in Net Working Capital	(20.0)	199.0	(158.0)	(78.0)	(89.0)	(18.5)	(71.2)	(118.7)	(50.5)	(5.7)
UFCF	**444.3**	**613.1**	**497.0**	**(659.0)**	**47.7**	**649.7**	**599.9**	**560.2**	**639.0**	**688.1**
Period						0.3	1.3	2.3	3.3	4.3
Mid-Year Convention						0.1	0.8	1.8	2.8	3.8
PV of UFCF						**637.4**	**538.4**	**437.2**	**433.6**	**406.0**

Enterprise Value Calculation	
WACC	15.0%
Growth Rate	3.0%
PV of UFCF	2,452.7
Terminal Value	5,906.1
PV of Terminal Value	3,485.2
Enterprise Value	5,937.9
(-) Outstanding Debt	(1,643.0)
(-) Minority Interest	0.0
(+) Cash & Cash Equivalents	1,036.0
Equity Value	5,330.9
Shares Outstanding	211.0
Implied Share Price	**$ 25.26**
Current Share Price	$ 26.28
IRR	(0.9%)

The current price implies that growth begins contracting over next ~3 years, with margins remaining at depressed levels compared to historical. Given we already see growth accelerating in the *Essential Dental Solutions* segment through channel checks with DSOs and distributors, alongside a market that is now structurally more attractive given deepening barriers to entry alongside regulation, we feel comfortable that the risk-to-reward is favorable.

Near-Term Thesis: Underestimated Terms Earnings Power & Mismodelling of Margins from Product Mix

Equity research is unfairly extrapolating a slow-down in top-line revenue over the past 3 quarters and applying a valuation discount under the impression that Dentsply Sirona now offers a commoditized product that is outcompeted by cheaper alternatives. This is due to the rise of DSOs that have begun trying to capture more of the dentistry market wallet share, and instead of referring clients to more specialized clinics, they opt to do the surgery themselves with general equipment, reducing demand for XRAY's products that lead to a ~8% FY'23 sales downturn. There are clear misaligned incentives, as ~30% are private equity backed with a focus on the bottom-line at the expense of patients. Our channel checks have revealed this trend reversing, with specialists seeing an up-tick in DTC approaches, and DSOs understanding the standard of equipment needed to protect them legally. Over the past decade, the number of DSOs under a roll-up strategy have expanded from ~13% of the total industry, to ~41% today, with much of the growth accredited to sponsor capital flowing into the industry (private equity firms now own 27/30 of the largest DSOs in the country). Concurrently, GPs have begun attempting complex dentistry work that otherwise would've been referred to a specialist, not only overstating their abilities, but skimping on the appropriate training required. Analyzing reported adverse action reports through scraping the *American Dental Association* shows us a clear ~42% and 8,435 up-tick in filed reports, with roll-up DSOs expanding ~70% at the same time; revealing flaws in how the industry is run. Patients go through a 3–4-year cycle (including recovery) of treatments from GPs, to which the patient experiences enough structural damage to warrant a lawsuit or a specialist, and you are left with a patient who requires a forced corrective surgery. Our conversations and channel checks with distributors alongside former employees at roll-up DSOs reveal that GPs have recognized their mistake. XRAY's equipment will not only service consumers better but allow them to justify providing specialized care versus specialists, driving an upgrade cycle across this portion of the sector into XRAY's higher priced and higher margin products going into the back-half of this year. This is reflected in the *Essential Dental Solutions* segment, as scraping distributors of more specialized XRAY products post-being approved for an account gives us an ASP of $10,789 segment products being ~28% higher than what we see as the general all-purpose equipment. Taking worst-case figures gives us a ~6% beat to NTM revenue and ~11% to NTM EBITDA margins, valuing the business today at a ~7.7x NTM EBITDA multiple.

Long-Term Thesis: Digitization Shift Regarding CAD/CAM Is Improving XRAY Market Structure

As Dental Service Organizations (DSOs) consolidate and dominate, smaller, independent practices struggle to compete, largely due to their limited ability to invest in R&D. DSOs, on the other hand, are leveraging economies of scale and prioritizing operational efficiency, driving demand for advanced digital solutions. Dentsply Sirona, with its innovative product offerings such as DS Core and CEREC, is perfectly positioned to capitalize on this shift by providing DSOs with integrated, digitally enabled systems that enhance both diagnostic precision and treatment outcomes. Much like how private equity firms push acquired clinics to upsell premium aesthetic procedures, DSOs are increasingly adopting high-tech solutions to differentiate their services and drive revenue. Dentsply Sirona's advanced technology not only enhances the efficiency of dental practices but also allows these larger organizations to offer premium, cutting-edge care that smaller competitors cannot easily replicate. This creates a competitive moat, enabling Dentsply Sirona to solidify long-term relationships with DSOs while positioning itself as the go-to provider for essential dental technology. As reliance on sophisticated tools grows, the company is poised to maintain a significant advantage over lower-tech competitors, further establishing its dominance in a rapidly evolving and increasingly digital dental market.

Potential Catalysts & Event Path: Several Catalysts of Liquidity Activity Precited Over Next ~18 Months

November 2024 (Investor Day): Increased earnings visibility provided should lead to upwards earnings cycle. Furthermore, with current CFO staying on until November 7, 2024, we foresee XRAY using the investor day as a catalyst to give the sell-side more visibility on the business.

Q3'FY25: Should management not provide the visibility we expect, then we anticipate we'll begin to see growth in the *Essential Dental Segment* and *Orthodontic and Implant Solutions* segment in Q3'FY25 given our conversations with industry decision makers predicting a ~6-18-month lag from initial surgery to complaint filed.

Thesis Risks: Management Churn Major Risk, With 2ND RISK

Management Churn: In August this year the CFO resigned, bringing up parallels to the 2022 accounting probe that uncovered ethical violations by ex-CFO Jorge Gomez, with the stock dropping ~12% on the news.

Underwhelming DSO Adoption: DSOs are a significant growth driver for XRAY, as they consolidate smaller dental practices and drive bulk equipment sales, if the growth of DSOs slows or fails to meet expectations it could reduce a critical sales channel for XRAY's products.

Valuation: Using Data Received During Channel Checks to Forecast Top-Line Growth Gives ~6% Sales Beat

By taking a view acceleration in the *Essential Dental Solutions* using our channel-checks and plugging in the $10,789 ASP figure gives us variance to street revenue figures of ~6% in FY'25E. Taking the current multiple FY + 1 multiple of ~9.5x and a 15% cost of capital gives us a share-price of $49.56, ~88.5% higher than the share-price today.

This may be further compounded by potential multiple expansion given a more structurally attractive marketplace.