

DENTSPLY SIRONA Inc.  
Form 10-Q  
May 07, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

Commission File Number 0-16211

DENTSPLY SIRONA Inc.  
(Exact name of registrant as specified in its charter)

Delaware 39-1434669  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

221 West Philadelphia Street, York, PA 17401-2991  
(Address of principal executive offices) (Zip Code)

(717) 845-7511  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐ If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Edgar Filing: DENTSPLY SIRONA Inc. - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: At April 26, 2018, DENTSPLY SIRONA Inc. had 227,438,501 shares of Common Stock outstanding, with a par value of \$.01 per share.

---

DENTSPLY SIRONA Inc.

TABLE OF CONTENTS

|                |  |             |
|----------------|--|-------------|
| <u>PART I</u>  | <u>FINANCIAL INFORMATION</u>   | <u>Page</u> |
| <u>Item 1</u>  | <u>Financial Statements (unaudited)</u>  | <u>3</u>    |
|                | <u>Consolidated Statements of Operations</u>   | <u>3</u>    |
|                | <u>Consolidated Statements of Comprehensive Income</u>                                       | <u>4</u>    |
|                | <u>Consolidated Balance Sheets</u>   | <u>5</u>    |
|                | <u>Consolidated Statements of Changes in Equity</u>  | <u>6</u>    |
|                | <u>Consolidated Statements of Cash Flows</u>   | <u>7</u>    |
|                | <u>Notes to Unaudited Interim Consolidated Financial Statements</u>                          | <u>8</u>    |
| <u>Item 2</u>  | <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>35</u>   |
| <u>Item 3</u>  | <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | <u>49</u>   |
| <u>Item 4</u>  | <u>Controls and Procedures</u>   | <u>49</u>   |
| <u>PART II</u> | <u>OTHER INFORMATION</u>   |             |
| <u>Item 1</u>  | <u>Legal Proceedings</u>   | <u>50</u>   |
| <u>Item 1A</u> | <u>Risk Factors</u>  | <u>50</u>   |
| <u>Item 2</u>  | <u>Unregistered Sales of Securities and Use of Proceeds</u>                                  | <u>50</u>   |
| <u>Item 6</u>  | <u>Exhibits</u>  | <u>51</u>   |
|                | <u>Signatures</u>  | <u>52</u>   |

## PART I – FINANCIAL INFORMATION

## Item 1 – Financial Statements

DENTSPLY SIRONA INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share amounts)

(unaudited)

|  | Three Months<br>Ended March 31, |          |
|--|---------------------------------|----------|
|  | 2018                            | 2017     |
| Net sales  | \$956.1                         | \$900.5  |
| Cost of products sold  | 442.0                           | 408.5    |
| Gross profit   | 514.1                           | 492.0    |
| Selling, general and administrative expenses                 | 435.2                           | 404.7    |
| Restructuring and other costs                                | 10.2                            | 3.1      |
| Operating income   | 68.7                            | 84.2     |
| Other income and expenses:                                   |                                 |          |
| Interest expense   | 8.6                             | 9.3      |
| Interest income  | (0.6)                           | ) (0.7)  |
| Other expense (income), net                                  | (34.1)                          | ) (1.0)  |
| Income before income taxes                                   | 94.8                            | 76.6     |
| Provision for income taxes                                   | 13.7                            | 16.9     |
| Net income   | 81.1                            | 59.7     |
| Less: Net loss attributable to noncontrolling interests      | (0.1)                           | ) (0.1)  |
| Net income attributable to Dentsply Sirona                   | \$81.2                          | \$59.8   |
| Net income per common share attributable to Dentsply Sirona: |                                 |          |
| Basic  | \$0.36                          | \$0.26   |
| Diluted  | \$0.35                          | \$0.26   |
| Weighted average common shares outstanding:                  |                                 |          |
| Basic  | 227.2                           | 230.1    |
| Diluted  | 229.9                           | 234.0    |
| Dividends declared per common share:                         | \$0.0875                        | \$0.0875 |

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.



DENTSPLY SIRONA INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(In millions)  
(unaudited)

|   | Three Months<br>Ended March<br>31,<br>2018 2017 |         |
|---|---|---------|
| Net income  | \$81.1  | \$59.7  |
| Other comprehensive income, net of tax:                                       |   |         |
| Foreign currency translation gain   | 65.7  | 49.7    |
| Net loss on derivative financial instruments                                  | (12.0 )   | (3.3 )  |
| Net unrealized holding gain on available for sale securities                  | (44.3 )   | —       |
| Pension liability gain  | 1.2   | 1.2     |
| Total other comprehensive income, net of tax                                  | 10.6  | 47.6    |
| Total comprehensive income  | 91.7  | 107.3   |
| Less: Comprehensive income (loss) attributable<br>to noncontrolling interests | 0.5   | (0.2 )  |
| Comprehensive income attributable to Dentsply Sirona                          | \$91.2  | \$107.5 |

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

## DENTSPLY SIRONA INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(In millions, except per share amounts)

(unaudited)

|  | March 31,<br>2018 | December 31,<br>2017 |
|--|-------------------|----------------------|
| Assets   |                   |                      |
| Current Assets:  |                   |                      |
| Cash and cash equivalents  | \$317.1           | \$ 320.6             |
| Accounts and notes receivables-trade, net  | 670.4             | 746.2                |
| Inventories, net   | 696.6             | 623.1                |
| Prepaid expenses and other current assets, net   | 316.4             | 312.6                |
| Total Current Assets   | 2,000.5           | 2,002.5              |
| Property, plant and equipment, net   | 888.2             | 876.0                |
| Identifiable intangible assets, net  | 2,811.4           | 2,800.7              |
| Goodwill, net  | 4,573.2           | 4,539.2              |
| Other noncurrent assets, net   | 99.5              | 156.1                |
| Total Assets   | \$10,372.8        | \$ 10,374.5          |
| Liabilities and Equity   |                   |                      |
| Current Liabilities:   |                   |                      |
| Accounts payable   | \$286.8           | \$ 284.4             |
| Accrued liabilities  | 531.7             | 585.8                |
| Income taxes payable   | 54.3              | 54.2                 |
| Notes payable and current portion of long-term debt  | 22.6              | 30.1                 |
| Total Current Liabilities  | 895.4             | 954.5                |
| Long-term debt   | 1,645.5           | 1,611.6              |
| Deferred income taxes  | 641.4             | 718.0                |
| Other noncurrent liabilities   | 485.3             | 462.5                |
| Total Liabilities  | 3,667.6           | 3,746.6              |
| Equity:  |                   |                      |
| Preferred stock, \$1.00 par value; 0.25 million shares authorized; no shares issued  | —                 | —                    |
| Common stock, \$0.01 par value;<br>400.0 million shares authorized and 264.5 million shares issued at March 31, 2018 and<br>December 31, 2017, respectively<br>227.4 million and 226.8 million shares outstanding at March 31, 2018 and December 31,<br>2017, respectively | 2.6               | 2.6                  |
| Capital in excess of par value   | 6,531.7           | 6,543.9              |
| Retained earnings  | 2,375.9           | 2,316.2              |
| Accumulated other comprehensive loss   | (281.0)           | ) (291.0 )           |
| Treasury stock, at cost, 37.1 million and 37.7, million shares at March 31, 2018 and<br>December 31, 2017, respectively  | (1,936.1)         | ) (1,955.4 )         |

|                              |            |             |
|------------------------------|------------|-------------|
| Total Dentsply Sirona Equity | 6,693.1    | 6,616.3     |
| Noncontrolling interests     | 12.1       | 11.6        |
| Total Equity                 | 6,705.2    | 6,627.9     |
| Total Liabilities and Equity | \$10,372.8 | \$ 10,374.5 |

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

DENTSPLY SIRONA INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
(In millions)  
(unaudited)

|   | Common<br>Stock | Capital in<br>Excess of<br>Par Value | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Treasury<br>Stock | Total Dentsply<br>Sirona<br>Equity | Dentsply<br>Noncontrolling<br>Interests | Total<br>Equity |
|---|-----------------|--------------------------------------|----------------------|---|-------------------|------------------------------------|---|-----------------|
| Balance at December 31, 2016                    | \$ 2.6          | \$6,516.7                            | \$3,948.0            | \$ (705.7 )                                   | \$(1,647.3)       | \$ 8,114.3                         | \$ 11.6                                 | \$8,125.9       |
| Net income                                      | —               | —                                    | 59.8                 | —   | —                 | 59.8                               | (0.1 )                                  | 59.7            |
| Other comprehensive income                      | —               | —                                    | —                    | 47.7  | —                 | 47.7                               | (0.1 )                                  | 47.6            |
| Exercise of stock options                       | —               | 4.9                                  | —                    | —   | 24.5              | 29.4                               | —                                       | 29.4            |
| Stock based compensation expense                | —               | 10.8                                 | —                    | —   | —                 | 10.8                               | —                                       | 10.8            |
| Reclassification on adoption of ASU No. 2016-09 | —               | 1.0                                  | (1.0 )               | —   | —                 | —                                  | —                                       | —               |
| Funding of Employee Stock Ownership Plan        | —               | 3.3                                  | —                    | —   | 3.3               | 6.6                                | —                                       | 6.6             |
| Treasury shares purchased                       | —               | —                                    | —                    | —   | (84.6 )           | (84.6 )                            | —                                       | (84.6 )         |
| RSU distributions                               | —               | (20.7 )                              | —                    | —   | 9.1               | (11.6 )                            | —                                       | (11.6 )         |
| RSU dividends                                   | —               | 0.2                                  | (0.2 )               | —   | —                 | —                                  | —                                       | —               |
| Cash dividends                                  | —               | —                                    | (20.2 )              | —   | —                 | (20.2 )                            | —                                       | (20.2 )         |
| Balance at March 31, 2017                       | \$ 2.6          | \$6,516.2                            | \$3,986.4            | \$ (658.0 )                                   | \$(1,695.0)       | \$ 8,152.2                         | \$ 11.4                                 | \$8,163.6       |
|   | Common<br>Stock | Capital in<br>Excess of<br>Par Value | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Treasury<br>Stock | Total Dentsply<br>Sirona<br>Equity | Dentsply<br>Noncontrolling<br>Interests | Total<br>Equity |
| Balance at December 31, 2017                    | \$ 2.6          | \$6,543.9                            | \$2,316.2            | \$ (291.0 )                                   | \$(1,955.4)       | \$ 6,616.3                         | \$ 11.6                                 | \$6,627.9       |
| Net income                                      | —               | —                                    | 81.2                 | —   | —                 | 81.2                               | (0.1 )                                  | 81.1            |
| Other comprehensive income                      | —               | —                                    | —                    | 10.0  | —                 | 10.0                               | 0.6                                     | 10.6            |
| Exercise of stock options                       | —               | (1.8 )                               | —                    | —   | 9.4               | 7.6                                | —                                       | 7.6             |
| Cumulative effect on adoption of ASC 606        | —               | —                                    | (6.0 )               | —   | —                 | (6.0 )                             | —                                       | (6.0 )          |
| Reclassification on adoption of ASU No. 2016-16 | —               | —                                    | (2.7 )               | —   | —                 | (2.7 )                             | —                                       | (2.7 )          |

Edgar Filing: DENTSPLY SIRONA Inc. - Form 10-Q

|   |        |           |           |             |             |            |         |           |
|---|--------|-----------|-----------|-------------|-------------|------------|---------|-----------|
| Reclassification on adoption of ASU No. 2018-02 | —      | —         | 7.6       | —           | —           | 7.6        | —       | 7.6       |
| Stock based compensation expense                | —      | 9.3       | —         | —           | —           | 9.3        | —       | 9.3       |
| RSU distributions                               | —      | (19.9 )   | —         | —           | 9.9         | (10.0 )    | —       | (10.0 )   |
| RSU dividends                                   | —      | 0.2       | (0.2 )    | —           | —           | —          | —       | —         |
| Cash dividends                                  | —      | —         | (20.2 )   | —           | —           | (20.2 )    | —       | (20.2 )   |
| Balance at March 31, 2018                       | \$ 2.6 | \$6,531.7 | \$2,375.9 | \$ (281.0 ) | \$(1,936.1) | \$ 6,693.1 | \$ 12.1 | \$6,705.2 |

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

DENTSPLY SIRONA INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(unaudited)

|   | Three Months<br>Ended March 31, |         |
|---|---------------------------------|---------|
|   | 2018                            | 2017    |
| Cash flows from operating activities:   |                                 |         |
| Net income  | \$81.1                          | \$59.7  |
| Adjustments to reconcile net income to net cash provided by operating activities:     |                                 |         |
| Depreciation  | 33.3                            | 30.9    |
| Amortization of intangible assets   | 49.9                            | 45.2    |
| Amortization of deferred financing costs  | 0.7                             | 0.7     |
| Deferred income taxes   | (16.8 )                         | 9.8     |
| Stock based compensation expense  | 9.3                             | 10.8    |
| Restructuring and other costs - non-cash  | 3.3                             | 0.6     |
| Other non-cash expense/(income)   | 14.0                            | (14.4 ) |
| Loss on disposal of property, plant and equipment                                     | 0.5                             | 0.3     |
| Gain on sale of equity security   | (44.1 )                         | —       |
| Changes in operating assets and liabilities, net of acquisitions:                     |                                 |         |
| Accounts and notes receivable-trade, net  | 87.5                            | 46.2    |
| Inventories, net  | (64.7 )                         | (38.3 ) |
| Prepaid expenses and other current assets, net  | (5.6 )                          | (9.2 )  |
| Other noncurrent assets, net  | (2.9 )                          | (14.4 ) |
| Accounts payable  | (3.9 )                          | 23.4    |
| Accrued liabilities   | (77.4 )                         | (36.0 ) |
| Income taxes  | (14.1 )                         | (31.4 ) |
| Other noncurrent liabilities  | 5.0                             | (1.4 )  |
| Net cash provided by operating activities   | 55.1                            | 82.5    |
| Cash flows from investing activities:   |                                 |         |
| Capital expenditures  | (35.8 )                         | (31.1 ) |
| Cash paid for acquisitions of businesses and equity investments, net of cash acquired | (6.7 )                          | (9.1 )  |
| Cash received on derivatives contracts  | —                               | 2.4     |
| Cash paid on derivatives contracts  | (2.4 )                          | —       |
| Expenditures for identifiable intangible assets                                       | (3.3 )                          | (4.8 )  |
| Purchase of short-term investments  | —                               | (0.1 )  |
| Proceeds from sale of property, plant and equipment, net                              | 3.0                             | 1.6     |
| Net cash used in investing activities   | (45.2 )                         | (41.1 ) |
| Cash flows from financing activities:   |                                 |         |
| (Decrease) increase in short-term borrowings  | (7.8 )                          | 1.3     |
| Cash paid for treasury stock  | —                               | (77.9 ) |
| Cash dividends paid   | (19.8 )                         | (18.0 ) |

Edgar Filing: DENTSPLY SIRONA Inc. - Form 10-Q

|  |         |         |
|--|---------|---------|
| Proceeds from long-term borrowings                           | 0.1     | 3.0     |
| Repayments on long-term borrowings                           | (0.2 )  | (5.4 )  |
| Proceeds from exercised stock options                        | 8.3     | 29.4    |
| Net cash used in financing activities                        | (19.4 ) | (67.6 ) |
| Effect of exchange rate changes on cash and cash equivalents | 6.0     | 5.6     |
| Net decrease in cash and cash equivalents                    | (3.5 )  | (20.6 ) |
| Cash and cash equivalents at beginning of period             | 320.6   | 383.9   |
| Cash and cash equivalents at end of period                   | \$317.1 | \$363.3 |

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

DENTSPLY SIRONA Inc. and Subsidiaries

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) and the rules of the U.S. Securities and Exchange Commission (“SEC”). The year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by US GAAP. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement of the results for interim periods have been included. Results for interim periods should not be considered indicative of results for a full year. These financial statements and related notes contain the accounts of DENTSPLY SIRONA Inc. and Subsidiaries (“Dentsply Sirona” or the “Company”) on a consolidated basis and should be read in conjunction with the consolidated financial statements and notes included in the Company’s most recent Form 10-K for the year ended December 31, 2017.

The accounting policies of the Company, as applied in the interim consolidated financial statements presented herein are substantially the same as presented in the Company’s Form 10-K for the year ended December 31, 2017, except as may be indicated below.

Revenue Recognition

Revenue is recognized when performance obligations under the terms of a contract with a customer are satisfied; generally this occurs with the transfer of risk and/or control of Dental and Healthcare Consumables products (“consumable” products), Dental Technology products (“technology” products), or Dental Equipment products (“equipment” products). Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods or providing services. Sales, value add and other taxes collected concurrent with revenue-producing activities are excluded from revenue. Incidental items that are immaterial in the context of the contract are recognized as expense.

For most of consumable, technology and equipment products, the Company transfers control and recognizes a sale when products are shipped from the manufacturing facility or warehouse to the customer (distributors and direct to dentists). For contracts with customers that contain destination shipping terms, revenue is not recognized until risk has transferred and the goods are delivered to the agreed upon destination. The amount of consideration received and revenue recognized varies with changes in marketing incentives (e.g., discounts, rebates, free goods) and returns offered to customers and their customers. When the Company gives customers the right to return eligible products and receive credit, returns are estimated based on an analysis of historical experience. However, returns of products, excluding warranty related returns, are infrequent and insignificant. The Company adjusts the estimate of revenue at the earlier of when the most likely amount of consideration can be estimated, the amount expected to be received changes, or when the consideration becomes fixed. Consideration received from customers in advance of revenue recognition is classified as deferred revenue.

Depending on the terms of the arrangement, the Company will defer the recognition of a portion of the consideration received when performance obligations are not yet satisfied (e.g., extended maintenance/service contracts, software and licenses, customer loyalty points and coupon programs). The Company uses an observable price, typically average selling price, to determine the stand-alone selling price for separate performance obligations. The Company

determines the stand-alone selling price, based on Company geographic sales locations' database of pricing and discounting practices for the specific product or service when sold separately, and utilizes this data to arrive at average selling prices by product. Revenue is then allocated proportionately, based on the determined stand-alone selling price, to the unsatisfied performance obligation, which is deferred until satisfied. At March 31, 2018, the Company had \$21.9 million of deferred revenue recorded in Accrued liabilities on the Consolidated Balance Sheets. The Company expects to recognize significantly all of the deferred revenue within the next twelve months.

The Company has elected to account for shipping and handling activities as a fulfillment cost within the cost of products sold, and records shipping and handling costs collected from customers in net sales. The Company has adopted two practical expedients: the "right to invoice" practical expedient, which allows us to recognize revenue in the amount of the invoice when it corresponds directly with the value of performance completed to date; and relief from considering the existence of a significant financing component when the payment for the good or service is expected to be one year or less.

The Company offers discounts to its customers and distributors if certain conditions are met. Discounts are primarily based on the volume of products purchased or targeted to be purchased by the customer. Discounts are deducted from revenue at the time of sale or when the discount is offered, whichever is later. The Company estimates volume discounts based on an individual customer's historical and estimated future product purchases.

Certain of the Company's customers are offered cash rebates based on targeted sales increases. The Company estimates rebates based on the forecasted performance of a customer and their expected level of achievement within the rebate programs. In accounting for these rebate programs, the Company records an accrual and reduces sales ratably as sales occur over the rebate period. The Company updates the accruals for these rebate programs as actual results and updated forecasts impact the estimated achievement for customers within the rebate programs.

A portion of the Company's net sales is comprised of sales of precious metals generated through its precious metal dental alloy product offerings. As the precious metal content of the Company's sales is largely a pass-through to customers, the Company uses its cost of precious metal purchased as a proxy for the precious metal content of sales, as the precious metal content of sales is not separately tracked and invoiced to customers. The Company believes that it is reasonable to use the cost of precious metal content purchased in this manner since precious metal alloy sale prices are typically adjusted when the prices of underlying precious metals change.

#### Accounts and Notes Receivable

The Company records a provision for doubtful accounts, which is included in Selling, general and administrative expenses on the Consolidated Statements of Operations.

Accounts and notes receivables – trade, net are stated net of allowances for doubtful accounts and trade discounts, which were \$25.0 million at March 31, 2018 and \$22.4 million at December 31, 2017.

#### Marketable Securities

During the three months ended March 31, 2018, the Company sold its direct investment in the DIO Corporation ("DIO") for \$54.1 million, resulting in a gain of \$44.1 million. At December 31, 2017, the Company had recorded an unrealized gain of \$45.0 million in accumulated other comprehensive income. This gain was transferred out of Accumulated other comprehensive loss ("AOCI"), and recorded in Other expense (income), net on the Consolidated Statements of Operations. The fair value of the direct investment at December 31, 2017 was \$54.4 million.

#### Income Taxes

The Company has accounted for the tax effects of the Tax Cuts and Jobs Act, enacted on December 22, 2017, on a provisional basis. At December 31, 2017, the accounting for certain income tax effects was incomplete, but the Company determined reasonable estimates for those effects which were included in the financial statements. The Company expects to complete the accounting during 2018 in accordance with the one year measurement period.

#### Recently Adopted Accounting Pronouncements

Effective January 1, 2018, the Company adopted Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers", as amended (Topic 606, commonly referred to as ASC 606) to all contracts using the modified retrospective method. The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

Most of the Company's sales revenue continues to be recognized when products are shipped from manufacturing facilities. For certain customer and dealer incentive programs, such as coupons, customer loyalty and free goods, the Company recognizes the proportionate revenue and cost of product when the incentives are shipped or awarded. Prior to adoption of ASC 606, costs for these types of programs were recognized when triggering events occurred. For contracts with customers where performance occurs over time, such as software sales, the Company recognizes revenue ratably over the performance period.

The new revenue standard also provided additional guidance that resulted in reclassifications to or from Net sales, Cost of products sold, Selling, general and administrative expenses, and the resultant change in (benefit) provision for income taxes.

The cumulative effect of the changes made on the Consolidated Balance Sheets at December 31, 2017 for the adoption of ASC 606, is as follows:

(in millions)

| Consolidated Balance Sheets Item | December<br>31, 2017<br>As<br>Reported<br>Balance | Adoption<br>of ASC<br>606 | January<br>1, 2018<br>Revised<br>Balance |
|----------------------------------|---|---------------------------|--|
|----------------------------------|---|---------------------------|--|

#### Assets

|   |          |        |          |
|---|----------|--------|----------|
| Accounts and notes receivable-trade, net      | \$ 746.2 | \$ 0.2 | \$ 746.4 |
| Inventory, net                                | 623.1    | (0.3 ) | 622.8    |
| Prepaid expense and other current assets, net | 312.6    | 1.9    | 314.5    |

#### Liabilities and Equity

|                      |         |        |         |
|----------------------|---------|--------|---------|
| Accrued liabilities  | 585.8   | 9.9    | 595.7   |
| Income taxes payable | 54.2    | (2.1 ) | 52.1    |
| Retained earnings    | 2,316.2 | (6.0 ) | 2,310.2 |

The impact of adoption of the new revenue recognition standard on the Company's Consolidated Statements of Operations and Consolidated Balance Sheets is as follows:

(in millions)

| Consolidated Statements of Operations Item   | Three Months Ended March 31, 2018 |                                      |   |
|--|-----------------------------------|--------------------------------------|---|
|  | Balances                          |                                      | Effect of Change<br>Increase/(Decrease) |
|  | As<br>Reported<br>Balance         | Without<br>Adoption<br>of ASC<br>606 |   |
| Net sales                                    | \$956.1                           | \$ 954.0                             | \$ 2.1                                  |
| Cost of products sold                        | 442.0                             | 438.9                                | 3.1                                     |
| Selling, general and administrative expenses | 435.2                             | 435.8                                | (0.6 )                                  |
| Provision for income taxes                   | 13.7                              | 13.8                                 | (0.1 )                                  |
| Net income attributable to Dentsply Sirona   | 81.2                              | 81.5                                 | (0.3 )                                  |

(in millions)

| Consolidated Balance Sheets Item | Balance at March 31, 2018 |                                      |   |
|----------------------------------|---------------------------|--------------------------------------|---|
|                                  | Balances                  |                                      | Effect of Change<br>Increase/(Decrease) |
|                                  | As<br>Reported<br>Balance | Without<br>Adoption<br>of ASC<br>606 |   |

#### Assets

|  |         |          |        |
|--|---------|----------|--------|
| Accounts and notes receivables-trade, net      | \$670.4 | \$ 670.3 | \$ 0.1 |
| Inventories, net                               | 696.6   | 696.9    | (0.3 ) |
| Prepaid expenses and other current assets, net | 316.4   | 315.2    | 1.2    |

Liabilities and Equity

|                      |         |         |       |   |
|----------------------|---------|---------|-------|---|
| Accrued liabilities  | 531.7   | 522.2   | 9.5   |   |
| Income taxes payable | 54.3    | 56.5    | (2.2) | ) |
| Retained earnings    | 2,375.9 | 2,382.2 | (6.3) | ) |

10

---

In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory." This accounting standard seeks to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. Current US GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to a third party, which is an exception to the principle of comprehensive recognition of current and deferred income taxes in US GAAP. ASU No. 2016-16 eliminates this exception. The amendments in this update should be applied through the modified retrospective method with a cumulative-effect adjustment directly to retained earnings. The Company adopted this accounting standard during the three months ended March 31, 2018. Upon adoption, the Company made the following reclassification:

(in millions)

| Consolidated Balance Sheets Item               | December                                 |   |   | January<br>1, 2018<br>Revised<br>Balance |
|--|--|---|---|--|
|  | 31,<br>2017<br>As<br>Reported<br>Balance | Adoption of ASU<br>2016-16<br>Increase/(Decrease) |   |  |
| Assets   |  |   |   |  |
| Prepaid expenses and other current assets, net | \$312.6                                  | \$ (5.6   | ) | \$ 307.0                                 |
| Other noncurrent assets, net                   | 156.1                                    | (73.1   | ) | 83.0                                     |

#### Liabilities and Equity

|                       |         |        |   |         |
|-----------------------|---------|--------|---|---------|
| Deferred income taxes | 718.0   | (76.0) | ) | 642.0   |
| Retained earnings     | 2,316.2 | (2.7)  | ) | 2,313.5 |

In March 2017, the FASB issued ASU No. 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." This newly issued accounting standard is primarily intended to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. The amendments in this update require an employer to report the service cost component of net periodic benefit cost in operating income, while the interest cost, amortization, return on assets and any settlement or curtailment expense will be reported below operating income. More specifically, the service cost will be reported in the same line item as other compensation costs arising from the services rendered by the pertinent employee during the period. The amendments in this update are required for annual and interim periods beginning after December 15, 2017, and should be applied retrospectively for the presentation of the components of net periodic benefit cost and net periodic postretirement benefit cost in the income statement. The amendment allows a practical expedient that permits an employer to use the amounts disclosed in its pension and other postretirement benefit plan note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. The Company adopted this accounting standard during the three months ended March 31, 2018, and applied the practical expedient upon adoption. The impact of adopting this standard, by financial statement line item, is reflected below:

(in millions)

| Consolidated Statements of Operations Item  | March                      |   |   | March<br>31, 2017<br>Revised |
|---|----------------------------|---|---|------------------------------|
|   | 31, 2017<br>As<br>Reported | Adoption of<br>2017-07<br>Increase/(Decrease) |   |                              |
| Cost of products sold                       | \$ 408.5                   | \$ (0.5)                                      | ) | \$ 408.0                     |
| Gross profit                                | 492.0                      | 0.5   |   | 492.5                        |
| Selling, general and administrative expense | 404.7                      | (1.7)   | ) | 403.0                        |

|                             |      |       |      |
|-----------------------------|------|-------|------|
| Operating income            | 84.2 | 2.2   | 86.4 |
| Other expense (income), net | (1.0 | ) 2.2 | 1.2  |

In February 2018, the FASB issued ASU No. 2018-02, “Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” This newly issued accounting standard allows for a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from tax rate changes due to the Tax Cuts and Jobs Act. The amendments in this update are required for annual and interim periods beginning after December 15, 2018. This standard also requires the Company to disclose its accounting policy for releasing income tax effects from accumulated other comprehensive income. In general, the Company applies the individual item approach. As permitted by the accounting standard, the Company early adopted this accounting standard during the three months ended March 31, 2018. As a result of the adoption, the Company elected to reclassify the income tax effects from AOCI to Retained earnings and reclassified \$7.6 million.

#### Recently Issued Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842).” This accounting standard seeks to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Current US GAAP does not require lessees to recognize assets and liabilities arising from operating leases on the balance sheet. This standard also provides guidance from the lessees’ perspective on how to determine if a lease is an operating lease or a financing lease and the differences in accounting for each. In January 2018, the FASB issued ASU No. 2018-01, which allows for an entity to elect an optional transition practical expedient for land easements that exist or expired before adoption of Topic 842. The adoption of this standard is required for interim and fiscal periods ending after December 15, 2018 and it is required to be applied using the modified retrospective approach. Early adoption is permitted. The Company is currently assessing the impact that this standard will have on its financial position, results of operations, cash flows and disclosures.

In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.” This newly issued accounting standard improves the financial reporting and disclosure of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements. The amendments in this update make improvements to simplify the application of the hedge accounting guidance in current US GAAP based on the feedback received from preparers, auditors, users and other stakeholders. More specifically, this update expands and refines hedge accounting for both nonfinancial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The amendments in this update are required for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. The effect of adoption should be reflected as of the beginning of the fiscal year of adoption. For cash flow and net investment hedges existing at the date of adoption, an entity should apply a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year that an entity adopts the amendments in this update. The amended presentation and disclosure guidance is required only prospectively. The Company is currently assessing the impact that this standard will have on its financial position, results of operations, cash flows and disclosures.

## NOTE 2 – STOCK COMPENSATION

The following table represents total stock based compensation expense for non-qualified stock options, restricted stock units (“RSU”) and the tax related benefit for the three months ended March 31, 2018 and 2017.

| (in millions)                          | Three Months Ended |         |
|--|--------------------|---------|
|  | 2018               | 2017    |
| Stock option expense                   | \$ 0.7             | \$ 2.7  |
| RSU expense                            | 8.3                | 7.7     |
| Total stock based compensation expense | \$ 9.0             | \$ 10.4 |
| Related deferred income tax benefit    | \$ 1.8             | \$ 3.3  |

For the three months ended March 31, 2018 and 2017, stock compensation expense of \$9.0 million and \$10.4 million, respectively, was recorded on the Consolidated Statements of Operations. For the three months ended March 31, 2018 and 2017, \$7.0 million and \$10.1 million, respectively, was recorded in Selling, general, and administrative expense, and \$0.3 million and \$0.3 million was recorded in Cost of products sold on the Consolidated Statements of Operations. For the three months ended March 31, 2018, the Company recorded \$1.7 million in Restructuring and other costs on the Consolidated Statements of Operations.

## NOTE 3 – COMPREHENSIVE INCOME

The following table summarizes the components of comprehensive income, net of tax, for the three months ended March 31, 2018 and 2017:

| (in millions)  | Three Months Ended |         |
|--|--------------------|---------|
|  | 2018               | 2017    |
| Foreign currency translation gains                             | \$ 84.0            | \$ 59.3 |
| Foreign currency translation loss on hedges of net investments | (18.9 )            | (9.5 )  |

These amounts are recorded in AOCI, net of any related tax adjustments. At March 31, 2018 and December 31, 2017, the cumulative tax adjustments were \$195.2 million and \$203.8 million, respectively, primarily related to foreign currency translation gains and losses.

The cumulative foreign currency translation adjustments included translation gains of \$106.1 million and \$22.1 million at March 31, 2018 and December 31, 2017, respectively, and cumulative losses on loans designated as hedges of net investments of \$145.5 million and \$126.6 million, respectively. These foreign currency translation gains and losses were partially offset by movements on derivative financial instruments, which are discussed in Note 10, Financial Instruments and Derivatives.

Changes in AOCI, net of tax, by component for the three months ended March 31, 2018 and 2017 were as follows:

| (in millions)   | Foreign<br>Currency<br>Translation<br>Gain<br>(Loss) | Gain and<br>(Loss) on<br>Derivative<br>Financial<br>Instruments<br>Designated<br>as Cash<br>Flow<br>Hedges | Gain and<br>(Loss) on<br>Derivative<br>Financial<br>Instruments | Net<br>Unrealized<br>Holding Gain<br>(Loss) on<br>Available-for-Sale<br>Securities | Pension<br>Liability<br>Gain<br>(Loss) | Total      |
|---|--|--|---|--|--|------------|
| Balance, net of tax, at December 31, 2017   | \$ (104.5 )  | \$ (12.6 )   | \$ (127.6 )   | \$ 44.3  | \$ (90.6 )                             | \$ (291.0) |
| Other comprehensive income (loss) before reclassifications and tax impact           | 84.3   | (7.0 )   | (17.9 )   | —  | —                                      | 59.4       |
| Tax (expense) benefit   | (19.2 )  | 1.3  | 9.3   | —  | —                                      | (8.6 )     |
| Other comprehensive income (loss), net of tax, before reclassifications             | 65.1   | (5.7 )   | (8.6 )  | —  | —                                      | 50.8       |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | —  | 2.3  | —   | (44.3 )  | 1.2                                    | (40.8 )    |
| Net increase (decrease) in other comprehensive income                               | 65.1   | (3.4 )   | (8.6 )  | (44.3 )  | 1.2                                    | 10.0       |
| Balance, net of tax, at March 31, 2018  | \$ (39.4 )   | \$ (16.0 )   | \$ (136.2 )   | \$ —   | \$ (89.4 )                             | \$ (281.0) |

| (in millions)   | Foreign<br>Currency<br>Translation<br>Gain<br>(Loss) | Gain and<br>(Loss) on<br>Derivative<br>Financial<br>Instruments<br>Designated<br>as Cash<br>Flow<br>Hedges | Gain and<br>(Loss) on<br>Derivative<br>Financial<br>Instruments | Pension<br>Liability<br>Gain<br>(Loss) | Total      |
|---|--|--|---|--|------------|
| Balance, net of tax, at December 31, 2016   | \$ (490.5 )  | \$ (3.2 )  | \$ (116.8 )   | \$ (95.2 )                             | \$ (705.7) |
| Other comprehensive (loss) income before reclassifications and tax impact           | 40.2   | (1.7 )   | (1.9 )  | —                                      | 36.6       |
| Tax (expense) benefit   | 9.6  | 0.6  | (0.3 )  | —                                      | 9.9        |
| Other comprehensive (loss) income, net of tax, before reclassifications             | 49.8   | (1.1 )   | (2.2 )  | —                                      | 46.5       |
| Amounts reclassified from accumulated other comprehensive (loss) income, net of tax | —  | —  | —   | 1.2                                    | 1.2        |
| Net (decrease) increase in other comprehensive income                               | 49.8   | (1.1 )   | (2.2 )  | 1.2                                    | 47.7       |
| Balance, net of tax, at March 31, 2017  | \$ (440.7 )  | \$ (4.3 )  | \$ (119.0 )   | \$ (94.0 )                             | \$ (658.0) |

Reclassifications out of AOCI to the Consolidated Statements of Operations for the three months ended March 31, 2018 and 2017 were as follows:

(in millions)

| Details about AOCI Components | Amounts<br>Reclassified<br>from AOCI<br>Three Months<br>Ended<br>2018 | 2017 | Affected Line Item on the Consolidated Statements of Operations |
|-------------------------------|---|------|---|
|-------------------------------|---|------|---|

Loss on derivative financial instruments:

|                                    |         |         |                            |
|------------------------------------|---------|---------|----------------------------|
| Interest rate swaps                | \$(0.6) | \$(0.8) | Interest expense           |
| Foreign exchange forward contracts | (1.8 )  | 0.5     | Cost of products sold      |
| Net loss before tax                | (2.4 )  | (0.3 )  |                            |
| Tax impact                         | 0.1     | —       | Provision for income taxes |
| Net loss after tax                 | \$(2.3) | \$(0.3) |                            |

Amortization of defined benefit pension and other postemployment benefit items:

|                                      |         |         |                            |
|--------------------------------------|---------|---------|----------------------------|
| Amortization of net actuarial losses | \$(1.7) | \$(1.7) | (a)                        |
| Net loss before tax                  | (1.7 )  | (1.7 )  |                            |
| Tax impact                           | 0.5     | 0.5     | Provision for income taxes |
| Net loss after tax                   | \$(1.2) | \$(1.2) |                            |

Total reclassifications for the period \$(3.5) \$(1.5)

(a) These AOCI components are included in the computation of net periodic benefit cost for the three months ended March 31, 2018 and 2017 (see Note 8, Benefit Plans, for additional details).



## NOTE 4 – EARNINGS PER COMMON SHARE

The following table sets forth the computation of basic and diluted earnings per common share for the three months ended March 31, 2018 and 2017:

| Diluted Earnings Per Common Share Computation<br>(in millions, except per share amounts)                           | Three Months Ended |         |
|--|--------------------|---------|
|  | 2018               | 2017    |
| Net income attributable to Dentsply Sirona   | \$ 81.2            | \$ 59.8 |
| Weighted average common shares outstanding   | 227.2              | 230.1   |
| Incremental weighted average shares from assumed exercise of dilutive options from stock-based compensation awards | 2.7                | 3.9     |
| Total weighted average diluted shares outstanding  | 229.9              | 234.0   |
| Earnings per common share - diluted  | \$ 0.35            | \$ 0.26 |

The calculation of weighted average diluted common shares outstanding excludes stock options and RSUs of 1.6 million and 0.8 million shares of common stock that were outstanding during the three months ended March 31, 2018 and 2017, respectively, because their effect would be antidilutive.

## NOTE 5 – BUSINESS COMBINATIONS

During the quarter ended June 30, 2017, the Company acquired Recherche Techniques Dentaires (“RTD”), a privately-held France-based manufacturer of endodontic posts for \$132.0 million. The Company recorded \$83.9 million in goodwill related to the fair value of assets acquired and liabilities assumed and the consideration given for the acquisition. Goodwill is considered to represent the value associated with workforce and synergies the two companies anticipate realizing as a combined company. The goodwill is not expected to be deductible for tax purposes.

Intangible assets acquired consist of the following:

| (in millions, except for useful life) | Weighted Average<br>Useful Life |
|---------------------------------------|---------------------------------|
| Amount (in years)                     |                                 |
| Customer relationships                | \$ 18.1 15                      |
| Developed technology and patents      | 22.4 15                         |
| Trade names and trademarks            | 8.5 Indefinite                  |
| Total                                 | \$ 49.0                         |

The results of operations for this business have been included in the accompanying financial statements as of the effective date of the transaction. This transaction was not material to the Company’s net sales and net income attributable to Dentsply Sirona for the three months ended March 31, 2018.

On May 1, 2018, the Company acquired all of the outstanding shares of privately held OraMetrix, Inc. for \$90.0 million, with additional payments totaling \$60.0 million, subject to meeting earn-out provisions. OraMetrix specializes in orthodontic treatment planning software, wire bending, and clear aligner manufacturing and is headquartered in Richardson, Texas.

## NOTE 6 – SEGMENT INFORMATION

The Company has numerous operating businesses covering a wide range of dental consumable products and dental technology products primarily serving the professional dental market, and certain healthcare products. Professional dental products represented approximately 92% of net sales for the three months ended March 31, 2018 and March 31, 2017.

The operating businesses are combined into two operating groups, which generally have overlapping geographical presence, customer bases, distribution channels, and regulatory oversight.

These operating groups are considered the Company's reportable segments as the Company's chief operating decision-maker regularly reviews financial results at the operating group level and uses this information to manage the Company's operations. The Company evaluates performance of the segments based on the groups' net third party sales, excluding precious metal content, and segment adjusted operating income. The Company defines net third party sales excluding precious metal content as the Company's net sales excluding the precious metal cost within the products sold, which is considered a measure not calculated in accordance with US GAAP, and is therefore considered a non-US GAAP measure. Management believes that the presentation of net sales, excluding precious metal content, provides useful information to investors because a portion of Dentsply Sirona's net sales is comprised of sales of precious metals generated through sales of the Company's precious metal dental alloy products, which are used by third parties to construct crown and bridge materials. Due to the fluctuations of precious metal prices and because the cost of the precious metal content of the Company's sales is largely passed through to customers and has minimal effect on earnings, Dentsply Sirona reports net sales both with and without precious metal content to show the Company's performance independent of precious metal price volatility and to enhance comparability of performance between periods. The Company uses its cost of precious metal purchased as a proxy for the precious metal content of sales, as the precious metal content of sales is not separately tracked and invoiced to customers. The Company believes that it is reasonable to use the cost of precious metal content purchased in this manner since precious metal dental alloy sale prices are typically adjusted when the prices of underlying precious metals change. The Company's exclusion of precious metal content in the measurement of net third party sales enhances comparability of performance between periods as it excludes the fluctuating market prices of the precious metal content. The Company also evaluates segment performance based on each segment's adjusted operating income before provision for income taxes and interest. Segment adjusted operating income is defined as operating income before income taxes and before certain corporate headquarter unallocated costs, restructuring and other costs, interest expense, interest income, other expense (income), net, amortization of intangible assets and depreciation resulting from the fair value step-up of property, plant and equipment from acquisitions. The Company's segment adjusted operating income is considered a non-US GAAP measure. A description of the products and services provided within each of the Company's two operating segments is provided below.

### Technologies & Equipment

This segment is responsible for the worldwide design, manufacture, sales and distribution of the Company's Dental Technology and Equipment Products and Healthcare Consumable Products. These products include dental implants, laboratory dental products, CAD/CAM systems, imaging systems, treatment centers, as well as consumable medical device products.

### Consumables

This segment is responsible for the worldwide design, manufacture, sales and distribution of the Company's Dental Consumable Products which include preventive, restorative, instruments, endodontic, and orthodontic dental products.

The following tables set forth information about the Company's segments for the three months ended March 31, 2018 and 2017. Certain reclassifications have been made to prior years' data in order to conform to current year presentation:

Third Party Net Sales

| (in millions)            | Three Months Ended |          |
|--------------------------|--------------------|----------|
|                          | 2018               | 2017     |
| Technologies & Equipment | \$ 508.3           | \$ 479.0 |
| Consumables              | 447.8              | 421.5    |
| Total net sales          | \$ 956.1           | \$ 900.5 |

## Third Party Net Sales, Excluding Precious Metal Content

| (in millions)                                     | Three Months Ended |          |
|---|--------------------|----------|
|   | 2018               | 2017     |
| Technologies & Equipment                          | \$ 498.0           | \$ 467.9 |
| Consumables                                       | 447.8              | 421.5    |
| Total net sales, excluding precious metal content | 945.8              | 889.4    |
| Precious metal content of sales                   | 10.3               | 11.1     |
| Total net sales, including precious metal content | \$ 956.1           | \$ 900.5 |

## Segment Adjusted Operating Income

| (in millions)  | Three Months Ended |         |
|--|--------------------|---------|
|  | 2018               | 2017    |
| Technologies & Equipment   | \$ 74.8            | \$ 54.0 |
| Consumables  | 107.1              | 116.0   |
| Segment adjusted operating income before income taxes and interest   | 181.9              | 170.0   |
| Reconciling items expense (income):  |                    |         |
| All Other (a)  | 51.3               | 36.0    |
| Restructuring and other costs  | 10.2               | 3.1     |
| Interest expense   | 8.6                | 9.3     |
| Interest income  | (0.6 )             | (0.7 )  |
| Other expense (income), net  | (34.1 )            | (1.0 )  |
| Amortization of intangible assets  | 49.9               | 45.2    |
| Depreciation resulting from the fair value step-up of property, plant and equipment from business combinations | 1.8                | 1.5     |
| Income before income taxes   | \$ 94.8            | \$ 76.6 |

(a) Includes the results of unassigned Corporate headquarter costs, inter-segment eliminations and one distribution warehouse not managed by named segments.

## NOTE 7 – INVENTORIES

Inventories are stated at the lower of cost and net realizable value. The cost of inventories determined by the last-in, first-out (“LIFO”) method at March 31, 2018 and December 31, 2017 were \$12.5 million and \$12.4 million, respectively. The cost of remaining inventories was determined by the first-in, first-out (“FIFO”) or average cost methods. If the FIFO method had been used to determine the cost of LIFO inventories, the amounts at which net inventories are stated would be higher than reported at March 31, 2018 and December 31, 2017 by \$8.3 million and \$10.6 million, respectively.

Inventories, net of inventory valuation reserves, consist of the following:

| (in millions)              | March 31, December 31, |          |
|----------------------------|------------------------|----------|
|                            | 2018                   | 2017     |
| Finished goods             | \$ 452.3               | \$ 387.6 |
| Work-in-process            | 94.6                   | 90.4     |
| Raw materials and supplies | 149.7                  | 145.1    |
| Inventories, net           | \$ 696.6               | \$ 623.1 |

The inventory valuation allowance was \$79.9 million and \$71.7 million at March 31, 2018 and December 31, 2017, respectively.

## NOTE 8 – BENEFIT PLANS

The following sets forth the components of net periodic benefit cost of the Company's defined benefit plans for the three months ended March 31, 2018 and 2017:

| Defined Benefit Plans              | Three<br>Months<br>Ended | 2017<br>(a) | Location on<br>Consolidated Statements of Operations |
|------------------------------------|--------------------------|-------------|--|
| (in millions)                      | 2018                     |             |  |
| Service cost                       | \$1.8                    | \$1.7       | Cost of products sold                                |
| Service cost                       | 2.4                      | 2.1         | Selling, general and administrative expenses         |
| Interest cost                      | 1.7                      | 1.7         | Other expense (income), net                          |
| Expected return on plan assets     | (1.4 )                   | (1.1 )      | Other expense (income), net                          |
| Amortization of net actuarial loss | 1.7                      | 1.6         | Other expense (income), net                          |
| Net periodic benefit cost          | \$6.2                    | \$6.0       |  |

(a) Prior period presented reflects adoption of ASU 2017-07. For further discussion on the reclassification, refer to Note 1, Significant Accounting Policies.

The following sets forth the information related to the contributions to the Company's defined benefit plans for 2018:

| (in millions)  | Pension<br>Benefits |
|--|---------------------|
| Actual contributions through March 31, 2018          | \$ 3.5              |
| Expected contributions for the remainder of the year | 12.8                |
| Total actual and expected contributions              | \$ 16.3             |

## NOTE 9 – RESTRUCTURING AND OTHER COSTS

## Restructuring Costs

During the three months ended March 31, 2018 and 2017, the Company recorded Restructuring costs and other costs of \$10.2 million and \$3.1 million respectively, which includes net restructuring costs of \$7.4 million and \$2.3 million, respectively. These costs are recorded in Restructuring and other costs on the Consolidated Statements of Operations and the associated liabilities are recorded in Accrued liabilities on the Consolidated Balance Sheets.

At March 31, 2018, the Company's restructuring accruals were as follows:

| (in millions)                | Severance                  |               |               |         |
|------------------------------|----------------------------|---------------|---------------|---------|
|                              | 2016<br>and<br>Prior Plans | 2017<br>Plans | 2018<br>Plans | Total   |
| Balance at December 31, 2017 | \$7.7                      | \$48.2        | \$—           | \$55.9  |
| Provisions                   | 0.2                        | (1.6 )        | 8.4           | 7.0     |
| Amounts applied              | (1.5 )                     | (4.2 )        | (5.1 )        | (10.8 ) |
| Change in estimates          | —                          | (0.2 )        | —             | (0.2 )  |
| Balance at March 31, 2018    | \$6.4                      | \$42.2        | \$3.3         | \$51.9  |

  

| (in millions)                | Lease/Contract Terminations |               |               |        |
|------------------------------|-----------------------------|---------------|---------------|--------|
|                              | 2016<br>and<br>Prior Plans  | 2017<br>Plans | 2018<br>Plans | Total  |
| Balance at December 31, 2017 | \$ 0.3                      | \$ 0.2        | \$ —          | \$ 0.5 |
| Provisions                   | 0.1                         | —             | 0.1           | 0.2    |
| Amounts applied              | (0.4 )                      | —             | (0.1)         | (0.5 ) |
| Balance at March 31, 2018    | \$ —                        | \$ 0.2        | \$ —          | \$ 0.2 |

  

| (in millions)                | Other Restructuring Costs  |               |               |        |
|------------------------------|----------------------------|---------------|---------------|--------|
|                              | 2016<br>and<br>Prior Plans | 2017<br>Plans | 2018<br>Plans | Total  |
| Balance at December 31, 2017 | \$ 2.0                     | \$ 1.7        | \$ —          | \$ 3.7 |
| Provisions                   | —                          | 0.3           | 0.1           | 0.4    |
| Amounts applied              | (0.1 )                     | (0.1 )        | (0.1)         | (0.3 ) |
| Balance at March 31, 2018    | \$ 1.9                     | \$ 1.9        | \$ —          | \$ 3.8 |

The following table provides the year-to-date changes in the restructuring accruals by segment:

| (in millions)            | December<br>31, 2017 | Provisions | Amounts<br>Applied | Change in<br>Estimates | March 31,<br>2018 |
|--------------------------|----------------------|------------|--------------------|------------------------|-------------------|
| Technologies & Equipment | \$ 13.3              | \$ 2.4     | \$(5.4 )           | \$ —                   | \$ 10.3           |
| Consumables              | 46.8                 | 0.2        | (4.0 )             | (0.2 )                 | 42.8              |
| All Other                | —                    | 5.0        | (2.2 )             | —                      | 2.8               |
| Total                    | \$ 60.1              | \$ 7.6     | \$(11.6 )          | \$(0.2 )               | \$ 55.9           |

Other Costs

Other costs for the three months ended March 31, 2018 were \$2.8 million.

22

---

## NOTE 10 – FINANCIAL INSTRUMENTS AND DERIVATIVES

## Derivative Instruments and Hedging Activities

The Company's activities expose it to a variety of market risks, which primarily include the risks related to the effects of changes in foreign currency exchange rates and interest rates. These financial exposures are monitored and managed by the Company as part of its overall risk management program. The objective of this risk management program is to reduce the volatility that these market risks may have on the Company's operating results and equity. The Company employs derivative financial instruments to hedge certain anticipated transactions, firm commitments, or assets and liabilities denominated in foreign currencies. Additionally, the Company utilizes interest rate swaps to convert variable rate debt to fixed rate debt.

## Derivative Instruments Designated as Hedging

## Cash Flow Hedges

The following table summarizes the notional amounts of cash flow hedges by derivative instrument type at March 31, 2018 and the notional amounts expected to mature during the next 12 months, with a discussion of the various cash flow hedges by derivative instrument type following the table:

| (in millions)   | Aggregate<br>Notional<br>Amount | Aggregate<br>Notional<br>Amount<br>Maturing<br>within 12<br>Months |
|---|---------------------------------|--|
| Foreign exchange forward contracts                          | \$ 349.1                        | \$ 279.5   |
| Interest rate swaps   | 118.2                           | —  |
| Total derivative instruments designated as cash flow hedges | \$ 467.3                        | \$ 279.5   |

## Foreign Exchange Risk Management

The Company uses a layered hedging program to hedge select anticipated foreign currency cash flows to reduce volatility in both cash flows and reported earnings of the consolidated Company. The Company accounts for the designated foreign exchange forward contracts as cash flow hedges. As a result, the Company records the fair value of the contracts primarily through AOCI based on the assessed effectiveness of the foreign exchange forward contracts. The Company measures the effectiveness of cash flow hedges of anticipated transactions on a spot-to-spot basis rather than on a forward-to-forward basis. Accordingly, the spot-to-spot change in the derivative fair value will be deferred in AOCI and released and recorded on the Consolidated Statements of Operations in the same period that the hedged transaction is recorded. The time value component of the fair value of the derivative is deemed ineffective and is reported currently in Other expense (income), net on the Consolidated Statements of Operations in the period which it is applicable. Any cash flows associated with these instruments are included in cash from operating activities on the Consolidated Statements of Cash Flows. The Company hedges various currencies, with the most significant activity occurring in euros, Swedish kronor, Canadian dollars, British pounds, Swiss francs, Japanese yen and Australian dollars.

These foreign exchange forward contracts generally have maturities up to 18 months and the counterparties to the transactions are typically large international financial institutions.

## Interest Rate Risk Management

The Company uses interest rate swaps to convert a portion of its variable interest rate debt to fixed interest rate debt. At March 31, 2018, the Company has one significant exposure hedged with interest rate contracts. The exposure is hedged with derivative contracts having notional amounts totaling 12.6 billion Japanese yen, which effectively converts the underlying variable interest rate debt facility to a fixed interest rate of 0.9% for an initial term of five years ending September 2019.

The Company enters into interest rate swap contracts infrequently as they are only used to manage interest rate risk on long-term debt instruments and not for speculative purposes. Any cash flows associated with these instruments are included in cash from operating activities on the Consolidated Statements of Cash Flows.

## Cash Flow Hedge Activity

The following tables summarize the amount of gains (losses) recorded in AOCI on the Consolidated Balance Sheets and income (expense) on the Company's Consolidated Statements of Operations related to all cash flow hedges for the three months ended March 31, 2018 and 2017:

| March 31, 2018                     |                           |   |   |  |
|------------------------------------|---------------------------|---|---|--|
| (in millions)                      | Gain<br>(Loss) in<br>AOCI | Consolidated Statements of Operations<br>Location | Effective<br>Portion<br>Reclassified<br>from AOCI<br>into Income<br>(Expense) | Ineffective<br>Portion<br>Recognized<br>in Income<br>(Expense) |
| Effective Portion:                 |                           |   |   |  |
| Interest rate swaps                | \$—                       | Interest expense                                  | \$ (0.6 )   | \$ —   |
| Foreign exchange forward contracts | (7.0 )                    | Cost of products sold                             | (1.8 )  | —  |
| Ineffective Portion:               |                           |   |   |  |
| Foreign exchange forward contracts | —                         | Other expense (income), net                       | —   | (0.1 )   |
| Total in cash flow hedging         | \$(7.0)                   |   | \$ (2.4 )   | \$ (0.1 )  |
| March 31, 2017                     |                           |   |   |  |
| (in millions)                      | Gain<br>(Loss) in<br>AOCI | Consolidated Statements of Operations<br>Location | Effective<br>Portion<br>Reclassified<br>from AOCI<br>into Income<br>(Expense) | Ineffective<br>Portion<br>Recognized<br>in Income<br>(Expense) |
| Effective Portion:                 |                           |   |   |  |
| Interest rate swaps                | \$(0.2)                   | Interest expense                                  | \$ (0.8 )   | \$ —   |
| Foreign exchange forward contracts | (1.5 )                    | Cost of products sold                             | 0.5   | —  |
| Ineffective Portion:               |                           |   |   |  |
| Foreign exchange forward contracts | —                         | Other expense (income), net                       | —   | (0.3 )   |
| Total for cash flow hedging        | \$(1.7)                   |   | \$ (0.3 )   | \$ (0.3 )  |

Overall, the derivatives designated as cash flow hedges are considered to be highly effective. At March 31, 2018, the Company expects to reclassify \$11.3 million of deferred net losses on cash flow hedges recorded in AOCI on the Consolidated Statements of Operations during the next 12 months. The term over which the Company is hedging exposures to variability of cash flows (for all forecasted transactions, excluding interest payments on variable interest rate debt) is typically 18 months.

For the rollforward of derivative instruments designated as cash flow hedges in AOCI see Note 3, Comprehensive Income.

## Hedges of Net Investments in Foreign Operations

The Company has significant investments in foreign subsidiaries the most significant of which are denominated in euros, Swiss francs, Japanese yen and Swedish kronor. The net assets of these subsidiaries are exposed to volatility in currency exchange rates. The Company employs both derivative and non-derivative financial instruments to hedge a portion of this exposure. The derivative instruments consist of foreign exchange forward contracts and cross currency basis swaps. The non-derivative instruments consist of foreign currency denominated debt held at the parent company level. Translation gains and losses related to the net assets of the foreign subsidiaries are offset by gains and losses in derivative and non-derivative financial instruments designated as hedges of net investments, which are included in AOCI. Any cash flows associated with these instruments are included in investing activities on the Consolidated Statements of Cash Flows except for derivative instruments that include an other-than-insignificant financing element, in which case all cash flows will be classified as financing activities on the Consolidated Statements of Cash Flows.

On January 2, 2018, the Company entered into a 245.6 million euro cross currency basis swap maturing in August 2021, that was designated as a hedge of net investments. This contract effectively converts the \$295.7 million bond coupon from 4.1% to 1.7%, which will result in a net reduction of interest expense through maturity in 2021.

The following table summarizes the notional amount of hedges of net investments by derivative instrument at March 31, 2018 and the notional amounts expected to mature during the next 12 months:

| (in millions)                                  | Aggregate<br>Notional<br>Amount | Aggregate<br>Notional<br>Amount<br>Maturing<br>within 12<br>Months |
|--|---------------------------------|--|
| Foreign exchange forward contracts             | \$ 632.0                        | \$ 315.1   |
| Cross currency basis swaps                     | 302.6                           | —  |
| Total for instruments not designated as hedges | \$ 934.6                        | \$ 315.1   |

The fair value of the foreign exchange forward contracts is the estimated amount the Company would receive or pay at the reporting date, taking into account the effective interest rates and foreign exchange rates. The effective portion of the change in the value of these derivatives is recorded in AOCI, net of tax effects.

The following tables summarize the amount of gains (losses) recorded in AOCI on the Consolidated Balance Sheets and Other expense (income), net on the Company's Consolidated Statements of Operations related to the hedges of net investments for the three months ended March 31, 2018 and 2017:

| (in millions)                      | March 31, 2018               |  | Recognized<br>in Income<br>(Expense) |
|------------------------------------|------------------------------|--|--------------------------------------|
|                                    | Gain<br>(Loss)<br>in<br>AOCI | Consolidated Statements of Operations Location |                                      |
| Effective Portion:                 |                              |  |                                      |
| Cross currency basis swaps         | \$(6.4 )                     | Interest expense                               | \$ 1.7                               |
|                                    |                              | Other expense (income), net                    | (6.6 )                               |
| Foreign exchange forward contracts | (11.5 )                      | Other expense (income), net                    | 1.5                                  |
| Total for net investment hedging   | \$(17.9)                     |  | \$ (3.4 )                            |

| (in millions) | March 31, 2017               |  | Recognized<br>in Income<br>(Expense) |
|---------------|------------------------------|--|--------------------------------------|
|               | Gain<br>(Loss)<br>in<br>AOCI | Consolidated Statements of Operations Location |                                      |
|               |                              |  |                                      |

Derivative Instruments Not Designated as Hedges

The Company enters into derivative instruments with the intent to partially mitigate the foreign exchange revaluation risk associated with recorded assets and liabilities that are denominated in a non-functional currency. The gains and losses on these derivative transactions offset the gains and losses generated by the revaluation of the underlying non-functional currency balances and are recorded in Other expense (income), net on the Consolidated Statements of Operations. The Company primarily uses foreign exchange forward contracts and cross currency basis swaps to hedge these risks. Any cash flows associated with the foreign exchange forward contracts and interest rate swaps not designated as hedges are included in cash from operating activities on the Consolidated Statements of Cash Flows. Any cash flows associated with the cross currency basis swaps not designated as hedges are included in investing activities on the Consolidated Statements of Cash Flows except for derivative instruments that include an other-than-insignificant financing element, in which case the cash flows will be classified as financing activities on the Consolidated Statements of Cash Flows.

The following tables summarize the aggregate notional amounts of the Company's economic hedges not designated as hedges by derivative instrument types at March 31, 2018 and the notional amounts expected to mature during the next 12 months:

| (in millions)                                  | Aggregate<br>Notional<br>Amount | Aggregate<br>Notional<br>Amount<br>Maturing<br>within 12<br>Months |
|--|---------------------------------|--|
| Foreign exchange forward contracts             | \$ 364.4                        | \$ 364.4   |
| Total for instruments not designated as hedges | \$ 364.4                        | \$ 364.4   |

The following table summarizes the amounts of gains (losses) recorded on the Company's Consolidated Statements of Operations related to the economic hedges not designated as hedging for the three months ended March 31, 2018 and 2017:

| (in millions)                                  | Consolidated Statements of Operations Location | Gain (Loss)<br>Recognized<br>Three<br>Months<br>Ended<br>2018 2017 |
|--|--|--|
| Foreign exchange forward contracts (a)         | Other expense (income), net                    | \$0.7 \$(2.8)  |
| Total for instruments not designated as hedges |  | \$0.7 \$(2.8)  |

(a) The gains and losses on these derivative transactions offset the gains and losses generated by the revaluation of the underlying non-functional currency balances which are recorded in Other expense (income), net on the Consolidated Statements of Operations.

#### Consolidated Balance Sheets Location of Derivative Fair Values

The following tables summarize the fair value and the location of the Company's derivatives on the Consolidated Balance Sheets at March 31, 2018 and December 31, 2017:

| (in millions)                      | March 31, 2018  |                                       |                        |                                    |
|------------------------------------|---|---------------------------------------|------------------------|------------------------------------|
|                                    | Prepaid<br>Expenses<br>and<br>Other<br>Current<br>Net | Other<br>Noncurrent<br>Assets,<br>Net | Accrued<br>Liabilities | Other<br>Noncurrent<br>Liabilities |
| Designated as Hedges               |   |                                       |                        |                                    |
| Foreign exchange forward contracts | \$0.9   | \$ 0.2                                | \$ 19.6                | \$ 7.8                             |
| Interest rate swaps                | —   | —                                     | 0.3                    | 0.1                                |
| Cross currency basis swaps         | —   | —                                     | —                      | 12.9                               |
| Total                              | \$0.9   | \$ 0.2                                | \$ 19.9                | \$ 20.8                            |

Not Designated as Hedges

Edgar Filing: DENTSPLY SIRONA Inc. - Form 10-Q

|                                    |       |      |        |      |
|------------------------------------|-------|------|--------|------|
| Foreign exchange forward contracts | \$1.6 | \$ — | \$ 5.2 | \$ — |
| Total                              | \$1.6 | \$ — | \$ 5.2 | \$ — |

| (in millions)                      | December 31, 2017                                     |                                       |                        |                                    |
|------------------------------------|---|---------------------------------------|------------------------|------------------------------------|
|                                    | Prepaid<br>Expenses<br>and<br>Other<br>Current<br>Net | Other<br>Noncurrent<br>Assets,<br>Net | Accrued<br>Liabilities | Other<br>Noncurrent<br>Liabilities |
| Designated as Hedges               |   |                                       |                        |                                    |
| Foreign exchange forward contracts | \$ 1.4  | \$ —                                  | \$ 13.4                | \$ 4.5                             |
| Interest rate swaps                | —   | —                                     | 0.3                    | 0.1                                |
| Total                              | \$ 1.4  | \$ —                                  | \$ 13.7                | \$ 4.6                             |

#### Not Designated as Hedges

|                                    |        |      |        |      |
|------------------------------------|--------|------|--------|------|
| Foreign exchange forward contracts | \$ 3.4 | \$ — | \$ 3.7 | \$ — |
| Total                              | \$ 3.4 | \$ — | \$ 3.7 | \$ — |

#### Balance Sheet Offsetting

Substantially all of the Company's derivative contracts are subject to netting arrangements, whereby the right to offset occurs in the event of default or termination in accordance with the terms of the arrangements with the counterparty. While these contracts contain the enforceable right to offset through netting arrangements with the same counterparty, the Company elects to present them on a gross basis on the Consolidated Balance Sheets.

#### Offsetting of financial assets and liabilities under netting arrangements at March 31, 2018:

| (in millions)                      | Gross<br>Amounts<br>Recognized | Gross<br>Amount<br>Offset on the<br>Consolidated<br>Balance<br>Sheets | Net Amounts<br>Presented<br>on the<br>Consolidated<br>Balance<br>Sheets | Gross Amounts Not Offset<br>on the Consolidated Balance<br>Sheets |                                     |               |
|------------------------------------|--------------------------------|---|---|---|-------------------------------------|---------------|
|                                    |                                |   |   | Financial<br>Instruments  | Cash Collateral<br>Received/Pledged | Net<br>Amount |
| Assets                             |                                |   |   |   |                                     |               |
| Foreign exchange forward contracts | \$ 2.7                         | \$ —  | \$ 2.7  | \$ (2.6 )   | \$ —                                | \$ 0.1        |
| Total Assets                       | \$ 2.7                         | \$ —  | \$ 2.7  | \$ (2.6 )   | \$ —                                | \$ 0.1        |

| (in millions) | Gross<br>Amounts<br>Recognized | Gross<br>Amount<br>Offset on the<br>Consolidated<br>Balance<br>Sheets | Net Amounts<br>Presented<br>on the<br>Consolidated<br>Balance<br>Sheets | Gross Amounts Not Offset<br>on the Consolidated Balance<br>Sheets |                                     |               |
|---------------|--------------------------------|---|---|---|-------------------------------------|---------------|
|               |                                |   |   | Financial<br>Instruments  | Cash Collateral<br>Received/Pledged | Net<br>Amount |
| Liabilities   |                                |   |   |   |                                     |               |

Edgar Filing: DENTSPLY SIRONA Inc. - Form 10-Q

|                                    |         |    |          |           |    |           |
|------------------------------------|---------|----|----------|-----------|----|-----------|
| Foreign exchange forward contracts | \$ 32.6 | \$ | —\$ 32.6 | \$ (1.5 ) | \$ | — \$ 31.1 |
| Interest rate swaps                | 0.4     | —  | 0.4      | (0.1 )    | —  | 0.3       |
| Cross currency basis swaps         | 12.9    | —  | 12.9     | (1.0 )    | —  | 11.9      |
| Total Liabilities                  | \$ 45.9 | \$ | —\$ 45.9 | \$ (2.6 ) | \$ | — \$ 43.3 |

27

---

Offsetting of financial assets and liabilities under netting arrangements at December 31, 2017:

| (in millions)                      | Gross<br>Amounts<br>Recognized | Gross<br>Amount<br>Offset on the<br>Consolidated<br>Balance<br>Sheets | Net Amounts<br>Presented on<br>the<br>Consolidated<br>Balance<br>Sheets | Gross Amounts Not Offset<br>on the Consolidated Balance<br>Sheets |                                     |               |
|------------------------------------|--------------------------------|---|---|---|-------------------------------------|---------------|
|                                    |                                |   |   | Financial<br>Instruments  | Cash Collateral<br>Received/Pledged | Net<br>Amount |
| Assets                             |                                |   |   |   |                                     |               |
| Foreign exchange forward contracts | \$ 4.8                         | \$  | —\$ 4.8   | \$ (3.9 )   | \$                                  | — \$ 0.9      |
| Total Assets                       | \$ 4.8                         | \$  | —\$ 4.8   | \$ (3.9 )   | \$                                  | — \$ 0.9      |

| (in millions)                      | Gross<br>Amounts<br>Recognized | Gross<br>Amount<br>Offset on the<br>Consolidated<br>Balance<br>Sheets | Net Amounts<br>Presented on<br>the<br>Consolidated<br>Balance<br>Sheets | Gross Amounts Not Offset<br>on the Consolidated Balance<br>Sheets |                                     |               |
|------------------------------------|--------------------------------|---|---|---|-------------------------------------|---------------|
|                                    |                                |   |   | Financial<br>Instruments  | Cash Collateral<br>Received/Pledged | Net<br>Amount |
| Liabilities                        |                                |   |   |   |                                     |               |
| Foreign exchange forward contracts | \$ 21.6                        | \$ —  | \$ 21.6   | \$ (3.8 )   | \$ —                                | \$ 17.8       |
| Interest rate swaps                | 0.4                            | —   | 0.4   | (0.1 )  | —                                   | 0.3           |
| Total Liabilities                  | \$ 22.0                        | \$ —  | \$ 22.0   | \$ (3.9 )   | \$ —                                | \$ 18.1       |

## NOTE 11 – FAIR VALUE MEASUREMENT

The Company records financial instruments at fair value with unrealized gains and losses related to certain financial instruments reflected in AOCI on the Consolidated Balance Sheets. In addition, the Company recognizes certain liabilities at fair value. The Company applies the market approach for recurring fair value measurements. Accordingly, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Financial assets and liabilities that are recorded at fair value as of the balance sheet date are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. The Company believes the carrying amounts of cash and cash equivalents, accounts receivable (net of allowance for doubtful accounts), prepaid expenses and other current assets, accounts payable, accrued liabilities, income taxes payable and notes payable approximate fair value due to the short-term nature of these instruments. The Company estimated the fair value using Level 1 inputs and carrying value of total long-term debt, including the current portion, was \$1,661.0 million and \$1,654.6 million, respectively at March 31, 2018. At December 31, 2017, the Company estimated the fair value and carrying value, including the current portion, was \$1,629.9 million and \$1,620.8 million, respectively. The variable interest rate on the Japanese yen term loan is consistent with current market conditions, therefore the fair value approximates the loan's carrying value.

The following tables set forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis at March 31, 2018 and December 31, 2017:

| (in millions)                             | March 31, 2018 |         |          |         |
|---|----------------|---------|----------|---------|
|   | Total          | Level 1 | Level 2  | Level 3 |
| <b>Assets</b>                             |                |         |          |         |
| Foreign exchange forward contracts        | \$2.7          | \$ —    | —\$ 2.7  | \$ —    |
| Total assets                              | \$2.7          | \$ —    | —\$ 2.7  | \$ —    |
| <b>Liabilities</b>                        |                |         |          |         |
| Interest rate swaps                       | \$0.4          | \$ —    | —\$ 0.4  | \$ —    |
| Cross currency basis swaps                | 12.9           | —       | 12.9     | —       |
| Foreign exchange forward contracts        | 32.6           | —       | 32.6     | —       |
| Contingent considerations on acquisitions | 9.1            | —       | —        | 9.1     |
| Total liabilities                         | \$55.0         | \$ —    | —\$ 45.9 | \$ 9.1  |

| (in millions)                      | December 31, 2017 |         |         |         |
|------------------------------------|-------------------|---------|---------|---------|
|                                    | Total             | Level 1 | Level 2 | Level 3 |
| <b>Assets</b>                      |                   |         |         |         |
| Foreign exchange forward contracts | \$4.8             | \$ —    | —\$4.8  | \$ —    |
| Available-for-sale security        | 54.4              | —       | 54.4    | —       |
| Total assets                       | \$59.2            | \$ —    | —\$59.2 | \$ —    |
| <b>Liabilities</b>                 |                   |         |         |         |
| Interest rate swaps                | \$0.4             | \$ —    | —\$0.4  | \$ —    |
| Foreign exchange forward contracts | 21.6              | —       | 21.6    | —       |

Edgar Filing: DENTSPLY SIRONA Inc. - Form 10-Q

|   |        |    |         |        |
|---|--------|----|---------|--------|
| Contingent considerations on acquisitions | 8.6    | —  | —       | 8.6    |
| Total liabilities                         | \$30.6 | \$ | —\$22.0 | \$ 8.6 |

There have been no transfers between levels during the three months ended March 31, 2018 and 2017.

Derivative valuations are based on observable inputs to the valuation model including interest rates, foreign currency exchange rates and credit risks. The Company utilizes interest rate swaps and foreign exchange forward contracts that are considered cash flow hedges. In addition, the Company at times employs forward exchange contracts that are considered hedges of net investment in foreign operations. Designated derivative instruments are further discussed in Note 10, Financial Instruments and Derivatives.

The Company's Level 3 liabilities at March 31, 2018 and December 31, 2017 are related to earn-out obligations on prior acquisitions. The following table presents a reconciliation of the Company's Level 3 holdings measured at fair value on a recurring basis using unobservable inputs:

| (in millions)                           | Earn-out<br>Obligations |
|---|-------------------------|
| Balance at December 31, 2017            | \$ 8.6                  |
| Fair value adjustment:                  |                         |
| Reported in Other expense (income), net | 0.2                     |
| Effect of exchange rate changes         | 0.3                     |
| Balance at March 31, 2018               | \$ 9.1                  |

For the three months ended March 31, 2018, there were no other purchases, issuances or transfers of Level 3 financial instruments.

## NOTE 12 – INCOME TAXES

### Uncertainties in Income Taxes

The Company recognizes in the interim consolidated financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position.

It is reasonably possible that certain amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date of the Company's interim consolidated financial statements. Final settlement and resolution of outstanding tax matters in various jurisdictions during the next twelve months are not expected to be significant.

### Other Tax Matters

During the quarter ended March 31, 2018, the Company recorded the following discrete tax items, \$2.2 million of excess tax benefit related to employee share-based compensation, tax expense of \$1.2 million related to valuation allowances, \$0.2 million of tax expense related to enacted statutory rate changes, \$7.2 million of tax expense for other discrete tax matters and \$3.4 million tax benefit related to U.S. tax reform. The Company also recorded \$1.1 million of tax expense as a discrete item related to the gain on sale of marketable securities.

During the first quarter of 2017, the Company recorded \$6.3 million of excess tax benefit related to employee share-based compensation, \$12.2 million of tax expense related to enacted statutory rate changes and \$1.4 million of tax benefit for other discrete tax matters.

### U.S. Federal Legislative Changes

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act" or "U.S. tax reform") was enacted. U.S. tax reform, among other things, reduced the U.S. federal income tax rate to 21% in 2018 from 35%, instituted a dividends received deduction for foreign earnings with a related tax for the deemed repatriation of unremitted foreign earnings and created a new U.S. minimum tax on earnings of foreign subsidiaries. In addition, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance on accounting for enactment effects of SAB 118 and provides a measurement period of up to one year from the Act's enactment date for companies to complete their accounting under Accounting Standards Codification No. 740 "Income Taxes", ("ASC 740"). In accordance with SAB 118, to the extent that a company's accounting for certain income tax effects of the Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in its financial statements. If a company cannot determine a provisional estimate to be included in its financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Act. The Company has accounted for the tax effects of the Act on a provisional basis. At December 31, 2017, the accounting for certain income tax effects was incomplete, but the Company determined reasonable estimates for those effects which were included in the financial statements. During the three months ended March 31, 2018, a tax benefit of \$3.4 million related to provisional estimates was recorded. The Company expects to complete the accounting during 2018 to comply with the one year measurement period.

Based on information available, at December 31, 2017, the Company estimated the cumulative undistributed foreign earnings and recorded a provisional estimate of income tax expense related to the one-time deemed repatriation toll charge. There is still uncertainty as to the application of the Act, in particular as it relates to state income taxes. Further, the Company has not yet completed the analysis of the components of the computation, including the amount of the foreign earnings subject to U.S. income tax, and the portion of the foreign earnings held in cash or other specified assets. At March 31, 2018, primarily due to the utilization of foreign tax credit carryforwards and certain

other tax attributes the estimated cash liability for the deemed repatriation of foreign earnings is approximately \$1.0 million. However, as the Company completes its analysis an additional liability could be recorded and the Company would elect to make installment payments as allowed under the Act.

As a result of the Act, the Company can repatriate the cumulative undistributed foreign earnings back to the U.S. when needed with minimal U.S. income tax consequences other than the one-time deemed repatriation toll charge. The Company is still evaluating whether to change its indefinite reinvestment assertion in light of the Act and consider that conclusion to be incomplete under SAB 118.

For the three months ended March 31, 2018, for the Global Intangible Low Tax Income (“GILTI”) provision of the Act, an estimate was recorded based on current guidance as a period expense, but the Company has not yet completed its assessment or elected an accounting policy to either recognize deferred taxes for basis differences expected to reverse as GILTI or to record GILTI as period costs if and when incurred.

In accordance with SEC guidance, provisional amounts may be refined as a result of additional guidance from, and interpretations by, U.S. regulatory and standard-setting bodies, and changes in assumptions. In subsequent periods, provisional amounts will be adjusted for the effects, if any, of interpretative guidance issued by the U.S. Department of the Treasury. The effects of the Act may be subject to changes for items that were previously reported as provisional amounts, as well as any element of the Act that a provisional estimate could not be made, and such changes could be material.

## NOTE 13 – GOODWILL AND INTANGIBLE ASSETS

A reconciliation of changes in the Company's goodwill by reportable segment is as follows:

| (in millions)  | Technologies<br>&<br>Equipment | Consumables | Total     |
|--|--------------------------------|-------------|-----------|
| Balance at December 31, 2017                         | \$ 3,660.6                     | \$ 878.6    | \$4,539.2 |
| Acquisition related additions                        | —                              | 3.7         | 3.7       |
| Measurement period adjustments on prior acquisitions | —                              | 0.5         | 0.5       |
| Effects of exchange rate changes                     | 23.5                           | 6.3         | 29.8      |
| Balance at March 31, 2018                            | \$ 3,684.1                     | \$ 889.1    | \$4,573.2 |

The following table provides the gross carrying amount of goodwill and the cumulative goodwill impairment:

|                          | March 31, 2018              |                          |                           | December 31, 2017           |                          |                           |
|--------------------------|-----------------------------|--------------------------|---------------------------|-----------------------------|--------------------------|---------------------------|
| (in millions)            | Gross<br>Carrying<br>Amount | Cumulative<br>Impairment | Net<br>Carrying<br>Amount | Gross<br>Carrying<br>Amount | Cumulative<br>Impairment | Net<br>Carrying<br>Amount |
| Technologies & Equipment | \$5,335.0                   | \$(1,650.9 )             | \$3,684.1                 | \$5,311.5                   | \$(1,650.9 )             | \$3,660.6                 |

Identifiable definite-lived and indefinite-lived intangible assets consist of the following:

|  | March 31, 2018              |                             |                           | December 31, 2017           |                             |                           |
|--|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
| (in millions)                              | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
| Patents and developed technology           | \$1,420.3                   | \$(338.9 )                  | \$1,081.4                 | \$1,385.5                   | \$(305.0 )                  | \$1,080.5                 |
| Trademarks                                 | 76.4                        | (47.9 )                     | 28.5                      | 76.4                        | (46.5 )                     | 29.9                      |
| Licensing agreements                       | 34.5                        | (25.2 )                     | 9.3                       | 31.2                        | (24.8 )                     | 6.4                       |
| Customer relationships                     | 1,127.1                     | (295.6 )                    | 831.5                     | 1,109.1                     | (272.0 )                    | 837.1                     |
| Total definite-lived                       | \$2,658.3                   | \$(707.6 )                  | \$1,950.7                 | \$2,602.2                   | \$(648.3 )                  | \$1,953.9                 |
| Indefinite-lived tradenames and trademarks | \$860.7                     | \$ —                        | \$860.7                   | \$846.8                     | \$ —                        | \$846.8                   |
| Total identifiable intangible assets       | \$3,519.0                   | \$(707.6 )                  | \$2,811.4                 | \$3,449.0                   | \$(648.3 )                  | \$2,800.7                 |

At December 31, 2017 the Company identified impairment triggering events related to CAD/CAM, Imaging and Treatment Center equipment reporting units, all within the Technologies & Equipment segment. As a result, the Company tested these reporting units for impairment and recorded an impairment charge. The Company, as a result of the triggering event, tested the indefinite-lived intangible assets related to these reporting units. The Company identified that certain tradenames and trademarks related to these reporting units, all within the Technologies & Equipment segment, were impaired and recorded an impairment charge. Fair value of these reporting units approximates book value of these reporting units. At March 31, 2018, the Company noted no impairment triggering events related to these reporting units.

Unfavorable developments in the market for the dental equipment industry, an increase in discount rates, unfavorable changes in earnings multiples or a decline in future cash flow projections, among other factors, may cause a change in circumstances indicating that the carrying value of the indefinite-lived assets and goodwill within the Company's

reporting units may not be recoverable.

## NOTE 14 – COMMITMENTS AND CONTINGENCIES

### Litigation

The SEC's Division of Enforcement has asked the Company to provide documents and information concerning the Company's accounting and disclosures. The Company is cooperating with the SEC's investigation. The Company is unable to predict the ultimate outcome of this matter, or whether it will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

On May 5, 2015, Roth Licensing, LLC ("Roth Licensing") filed a demand for arbitration alleging that GAC International, LLC, a subsidiary of the Company ("GAC"), infringes a registered trademark of Roth Licensing pursuant to the Lanham Act, California Civil Code Section 3344.1, and certain other common law causes of action. On August 9, 2017, the arbitrator issued an interim decision on liability finding that GAC had willfully infringed the registered trademark of Roth Licensing. On November 8, 2017, the arbitrator served his Final Award on damages awarding Roth Licensing approximately \$16.0 million for damages, attorneys' fees and costs as well as injunctive relief regarding the ROTH mark and any reproduction, counterfeit, copy, or colorable imitation of the ROTH mark and Dr. Roth's image. The Company believes that the arbitrator failed to follow the applicable arbitration procedures, and it has filed a Motion to Vacate Arbitration Award with the Eastern District of New York.

On January 19, 2018, Futuredontics, Inc., a wholly-owned subsidiary of the Company, received service of a purported class action lawsuit filed in the Superior Court of the State of California, for the County of Los Angeles, brought by a former employee, Henry Olivares, on behalf of other similarly situated individuals. The plaintiff alleges several wage and hour violations under California Business and Professions Code Section 17200, including, but not limited to, failure to provide rest and meal break periods and the failure to pay overtime. The Company has filed its answer to the complaint and it intends to vigorously defend against this matter.

In addition to the matters disclosed above, the Company is, from time to time, subject to a variety of litigation and similar proceedings incidental to its business. These legal matters primarily involve claims for damages arising out of the use of the Company's products and services and claims relating to intellectual property matters including patent infringement, employment matters, tax matters, commercial disputes, competition and sales and trading practices, personal injury and insurance coverage. The Company may also become subject to lawsuits as a result of past or future acquisitions or as a result of liabilities retained from, or representations, warranties or indemnities provided in connection with, divested businesses. Some of these lawsuits may include claims for punitive and consequential, as well as compensatory damages. Based upon the Company's experience, current information and applicable law, it does not believe that these proceedings and claims will have a material adverse effect on its consolidated results of operations, financial position or liquidity. However, in the event of unexpected further developments, it is possible that the ultimate resolution of these matters, or other similar matters, if unfavorable, may be materially adverse to the Company's business, financial condition, results of operations or liquidity.

While the Company maintains general, product, property, workers' compensation, automobile, cargo, aviation, crime, fiduciary and directors' and officers' liability insurance up to certain limits that cover certain of these claims, this insurance may be insufficient or unavailable to cover such losses. In addition, while the Company believes it is entitled to indemnification from third parties for some of these claims, these rights may also be insufficient or unavailable to cover such losses.

### Purchase Commitments

From time to time, the Company enters into long-term inventory purchase commitments with minimum purchase requirements for raw materials and finished goods to ensure the availability of products for production and

distribution. These commitments may have a significant impact on levels of inventory maintained by the Company.

DENTSPLY SIRONA Inc. and Subsidiaries

Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

Information included in or incorporated by reference in this Form 10-Q, and other filings with the U. S. Securities and Exchange Commission (the “SEC”) and the Company’s press releases or other public statements, contains or may contain forward-looking statements. Please refer to a discussion of the Company’s forward-looking statements and associated risks in Part I, “Forward-Looking Statements” and Part I, Item 1A “Risk Factors” of the Company’s Form 10-K for the year ended December 31, 2017.

OVERVIEW

Highlights

For the three months ended March 31, 2018, the Company reported a sales increase of 6.2% compared to the three months ended March 31, 2017. Net sales, excluding precious metal content, increased 6.3% for the three months ended March 31, 2018 compared to the same period in 2017. On a constant currency basis sales decreased 1.1% compared to the same year ago period.

On a geographic basis, the Company generated constant currency sales growth of 5.3% in the Rest of World region and 0.6% in Europe while the United States generated a decline of 7.4% for the three month period ended March 31, 2018.

For the three months ended March 31, 2018, the Company generated earnings per diluted share of \$0.35 compared to earnings per diluted share of \$0.26 for the three months ended March 31, 2017. This largely reflects the impact of a gain on the sale of marketable securities partially offset by higher operating expenses. On an adjusted basis (a non-US GAAP measure as reconciled under Net income attributable to Dentsply Sirona below) for the three months ended March 31, 2018 earnings per diluted share was \$0.45 as compared to \$0.49 earnings per diluted share for the three months ended March 31, 2017.

On May 1, 2018, the Company acquired all of the outstanding shares of privately held OraMetrix, Inc. for \$90.0 million, with additional payments totaling \$60.0 million, subject to meeting earn-out provisions. OraMetrix specializes in orthodontic treatment planning software, wire bending, and clear aligner manufacturing and is headquartered in Richardson, Texas.

Company Profile

Dentsply Sirona is the world’s largest manufacturer of professional dental products and technologies, with over a century of innovation and service to the dental industry and patients worldwide. Dentsply Sirona develops, manufactures, and markets a comprehensive solutions offering including dental and oral health products as well as other consumable medical devices under a strong portfolio of world class brands. As The Dental Solutions Company, Dentsply Sirona’s products provide innovative, high-quality and effective solutions to advance patient care and deliver better, safer and faster dentistry. Dentsply Sirona’s global headquarters is located in York, Pennsylvania. The Company’s shares are listed in the United States on Nasdaq under the symbol XRAY.

BUSINESS

The Company operates in two business segments:

The Technologies & Equipment segment is responsible for the worldwide design, manufacture, sales and distribution of the Company's Dental Technology, Equipment Products and Healthcare Consumable Products. These products include dental implants, laboratory dental products, CAD/CAM systems, imaging systems, treatment centers as well as consumable medical device products.

The Consumables segment is responsible for the worldwide design, manufacture, sales and distribution of the Company's Dental Consumable Products which includes preventive, restorative, instruments and endodontic and orthodontic dental products.

## Principal Measurements

The principal measurements used by the Company in evaluating its business are: (1) constant currency sales growth by segment and geographic region; (2) internal sales growth by segment and geographic region; and (3) adjusted operating income and margins of each reportable segment, which excludes the impacts of purchase accounting, corporate expenses, and certain other items to enhance the comparability of results period to period. These principal measurements are not calculated in accordance with accounting principles generally accepted in the United States; therefore, these items represent non-US GAAP measures. These non-US GAAP measures may differ from other companies and should not be considered in isolation from, or as a substitute for, measures of financial performance prepared in accordance with US GAAP.

The Company defines “constant currency” sales growth as the increase or decrease in net sales from period to period excluding precious metal content and the impact of changes in foreign currency exchange rates. This impact is calculated by comparing current-period revenues to prior-period revenues, with both periods converted at the U.S. dollar to local currency foreign exchange rate for each month of the prior period, for the currencies in which the Company does business. The Company defines “internal” sales growth as constant currency sales growth excluding the impacts of net acquisitions and divestitures, Merger accounting impacts and discontinued products.

## Business Drivers

The primary drivers of internal growth include macroeconomic factors, global dental market growth, innovation and new product launches by the Company, as well as continued investments in sales and marketing resources, including clinical education. Management believes that the Company’s ability to execute its strategies should allow it to grow faster than the underlying dental market over time. On a short term basis, changes in strategy or distributor inventory levels can impact internal growth.

The Company has a focus on maximizing operational efficiencies on a global basis. The Company has expanded the use of technology as well as process improvement initiatives to enhance global efficiency. In addition, management continues to evaluate the consolidation of operations and functions, as part of integration activities, to further reduce costs. While the current period results continue to reflect the unfavorable impact of integration related inefficiencies, the Company believes that the future benefits from these global efficiency and integration initiatives will improve the cost structure and help mitigate the impacts of rising costs such as energy, employee benefits and regulatory oversight and compliance. In 2017, the Company targeted a cost reduction initiative of approximately \$100 million expected to be achieved over the next several years as the benefits of these initiatives, net of related investments, are realized over time. The Company expects that it will record restructuring charges, from time to time, associated with such initiatives. These restructuring charges could be material to the Company’s consolidated financial statements and there can be no assurance that the cost reduction will be achieved.

Product innovation is a key component of the Company’s overall growth strategy. New advances in technology are anticipated to have a significant influence on future products in the dentistry and consumable medical device markets in which the Company operates. As a result, the Company continues to pursue research and development initiatives to support technological development, including collaborations with various research institutions and dental schools. In addition, the Company licenses and purchases technologies developed by third parties. Although the Company believes these activities will lead to new innovative dental, healthcare consumable and dental technology products, they involve new technologies and there can be no assurance that commercialized products will be developed.

The Company’s business is subject to quarterly fluctuations of consolidated net sales and net income. Price increases, promotional activities as well as changes in inventory levels at distributors contribute to this fluctuation. The Company typically implements most of its price increases in October or January of a given year across most of its

businesses. Distributor inventory levels tend to increase in the period leading up to a price increase and decline in the period following the implementation of a price increase. Required minimum purchase commitments under agreements with key distributors may increase inventory levels in excess of retail demand. These net inventory changes have impacted the Company's consolidated net sales and net income in the past, and may continue to do so in the future, over a given period or multiple periods. In addition, the Company may from time to time, engage in new distributor relationships that could cause quarterly fluctuations of consolidated net sales and net income. Distributor inventory levels may fluctuate, and may differ from the Company's predictions, resulting in the Company's projections of future results being different than expected. There can be no assurance that the Company's dealers and customers will maintain levels of inventory in accordance with the Company's predictions or past history, or that the timing of customers' inventory build or liquidation will be in accordance with the Company's predictions or past history. Any of these fluctuations could be material to the Company's consolidated financial statements.

The Company continues to be impacted by the transition in distribution strategy with Patterson Companies, Inc. (“Patterson”) and Henry Schein, Inc. (“Henry Schein”). During 2017, the Company signed new distribution agreements with Patterson and Henry Schein for the Company’s equipment products. The Company shipped initial stocking orders for the equipment products to Henry Schein under the agreements primarily in the second and third quarters of 2017 which will result in unfavorable year-over-year sales growth comparisons. Based on the Company’s estimate, year-over-year changes in distributor inventories associated with these agreements favorably impacted the Company’s reported sales growth in the first three months of 2018 by approximately \$4 million. Based on the Company’s estimate, distributor inventories decreased during the first three months of 2017 by approximately \$12 million as compared to a decrease of approximately \$8 million during the first three months of 2018. At this time, the Company estimates that net changes in distributor inventories will decrease the Company’s sales by approximately \$35 million to \$40 million for the balance of 2018. Based on the Company’s estimate, year-over-year changes in distributor inventories associated with these agreements is projected to unfavorably impact the Company’s reported sales growth for the full year of 2018 by approximately \$65 million to \$75 million.

The Company will continue to pursue opportunities to expand the Company’s product offerings, technologies and sales and service infrastructure through partnerships and acquisitions. Although the professional dental and the consumable medical device markets in which the Company operates have experienced consolidation, they remain fragmented. Management believes that there will continue to be adequate opportunities to participate as a consolidator in the industry for the foreseeable future.

#### Impact of Foreign Currencies and Interest Rates

Due to the Company’s significant international presence, movements in foreign exchange and interest rates may impact the Consolidated Statements of Operations. With approximately two thirds of the Company’s net sales located in regions outside the United States, the Company’s consolidated net sales are impacted negatively by the strengthening or positively impacted by the weakening of the U.S. dollar. Additionally, movements in certain foreign exchange rates may unfavorably or favorably impact the Company’s results of operations, financial condition and liquidity as a number of the Company’s manufacturing and distribution operations are located outside of the U.S.

#### Reclassification of Prior Year Amounts

Certain reclassifications have been made to prior years’ data in order to conform to current year presentation.

### RESULTS OF OPERATIONS, QUARTER ENDED MARCH 31, 2018 COMPARED TO QUARTER ENDED MARCH 31, 2017

#### Net Sales

The discussion below summarizes the Company’s sales growth which excludes precious metal content, into the following components: (1) constant currency sales growth, which includes internal sales growth and net acquisition sales growth, and (2) foreign currency impacts. These disclosures of net sales growth provide the reader with sales results on a comparable basis between periods.

Management believes that the presentation of net sales, excluding precious metal content, provides useful information to investors because a portion of Dentsply Sirona’s net sales is comprised of sales of precious metals generated through sales of the Company’s precious metal dental alloy products, which are used by third parties to construct crown and bridge materials. Due to the fluctuations of precious metal prices and because the cost of the precious metal content of the Company’s sales is largely passed through to customers and has minimal effect on earnings, Dentsply Sirona reports net sales both with and without precious metal content to show the Company’s performance independent of

precious metal price volatility and to enhance comparability of performance between periods. The Company uses its cost of precious metal purchased as a proxy for the precious metal content of sales, as the precious metal content of sales is not separately tracked and invoiced to customers. The Company believes that it is reasonable to use the cost of precious metal content purchased in this manner since precious metal dental alloy sale prices are typically adjusted when the prices of underlying precious metals change.

The presentation of net sales, excluding precious metal content, is considered a measure not calculated in accordance with US GAAP, and is therefore considered a non-US GAAP measure. The Company provides the following reconciliation of net sales to net sales, excluding precious metal content. The Company's definitions and calculations of net sales, excluding precious metal content, and other operating measures derived using net sales, excluding precious metal content, may not necessarily be the same as those used by other companies.

| (in millions)                               | Three Months<br>Ended<br>March 31, |         | \$     |  | %      |   |
|---|------------------------------------|---------|--------|--|--------|---|
|   | 2018                               | 2017    | Change |  | Change |   |
| Net sales                                   | \$956.1                            | \$900.5 | \$55.6 |  | 6.2    | % |
| Less: precious metal content of sales       | 10.3                               | 11.1    | (0.8)  |  | (7.2)  | % |
| Net sales, excluding precious metal content | \$945.8                            | \$889.4 | \$56.4 |  | 6.3    | % |

Net sales, excluding precious metal content, for the three months ended March 31, 2018 were \$945.8 million, an increase of \$56.4 million from the three months ended March 31, 2017. The increase in net sales, excluding precious metal content, was favorably impacted, based on the Company's estimate, by approximately \$4 million as a result of net changes in equipment inventory levels in the current quarter as compared to the prior year quarter at certain distributors in North America and Europe, that the Company believes is related to the transition in distribution strategy (see "Business Drivers" under this section for further detail). Based on the Company's estimate, inventory held by these distributors decreased by approximately \$8 million during the three months ended March 31, 2018, compared to an decrease of approximately \$12 million in the same three month period in 2017. At this time, the Company estimates that net changes in distributor inventories will decrease the Company's sales by approximately \$35 million to \$40 million for the balance of 2018. Based on the Company's estimate, year-over-year changes in distributor inventories associated with these agreements is projected to unfavorably impact the Company's reported sales growth for the full year of 2018 by approximately \$65 million to \$75 million.

For the three months ended March 31, 2018, net sales, excluding precious metal content, decreased 1.1% on a constant currency basis. This includes a benefit of 0.3% from acquisitions, which results in negative internal sales growth of 1.4%. Net sales, excluding precious metal content, were positively impacted by approximately 7.3% due to the weakening of the U.S. dollar over the prior year period. The decline in internal sales growth was attributable to both the Technologies & Equipment and Consumables segments.

#### Sales Growth by Region

Net sales, excluding precious metal content, by geographic region is as follows:

| (in millions) | Three Months<br>Ended<br>March 31, |         | \$       |  | %      |   |
|---------------|------------------------------------|---------|----------|--|--------|---|
|               | 2018                               | 2017    | Change   |  | Change |   |
| United States | \$290.5                            | \$312.1 | \$(21.6) |  | (6.9)  | % |
| Europe        | 417.4                              | 364.1   | 53.3     |  | 14.6   | % |
| Rest of World | 237.9                              | 213.2   | 24.7     |  | 11.6   | % |

A reconciliation of reported net sales to net sales, excluding precious metal content, by geographic region is as follows:

Three Months Ended  
March 31, 2018

Edgar Filing: DENTSPLY SIRONA Inc. - Form 10-Q

| (in millions)   | United<br>States | Europe  | Rest of<br>World | Total   |
|---|------------------|---------|------------------|---------|
| Net sales   | \$291.8          | \$425.5 | \$238.8          | \$956.1 |
| Less: precious metal content of sales                   | 1.3              | 8.1     | 0.9              | 10.3    |
| Non-US GAAP net sales, excluding precious metal content | \$290.5          | \$417.4 | \$237.9          | \$945.8 |

38

---

| (in millions)   | Three Months Ended<br>March 31, 2017 |         |                  |         |
|---|--------------------------------------|---------|------------------|---------|
|   | United<br>States                     | Europe  | Rest of<br>World | Total   |
| Net sales   | \$313.5                              | \$372.7 | \$214.3          | \$900.5 |
| Less: precious metal content of sales                   | 1.4                                  | 8.6     | 1.1              | 11.1    |
| Net sales, excluding precious metal content             | 312.1                                | 364.1   | 213.2            | 889.4   |
| Merger related adjustments (a)                          | 1.5                                  | —       | —                | 1.5     |
| Non-US GAAP net sales, excluding precious metal content | \$313.6                              | \$364.1 | \$213.2          | \$890.9 |

(a) Represents an adjustment to reflect deferred subscription and warranty revenue that was eliminated under business combination accounting standards to make the 2017 non-U.S. GAAP results comparable.

#### United States

Net sales decreased by 6.9% in the quarter ended March 31, 2018 as compared to the three months ended March 31, 2017. Net sales, excluding precious metal content, decreased by 6.9% in the first quarter of 2018 as compared to the first quarter of 2017.

For the three month period ended March 31, 2018, net sales, excluding precious metal content, decreased 7.4% on a constant currency basis. This includes a benefit of 0.2% from acquisitions, which results in negative internal sales growth of 7.6%. The decline in internal sales growth was attributable to both the Technologies & Equipment and Consumables segments.

Based on the Company's estimate, there was no impact on reported sales growth for the three months ended March 31, 2018 from net changes in equipment inventory levels in the current quarter as compared to the prior year quarter at the two distributors in the United States related to the transition in distribution strategy (see "Business Drivers" under this section for further detail). Based on the Company's estimate, inventory held by these distributors decreased by approximately \$6 million during both the three months ended March 31, 2018 and March 31, 2017. At this time, the Company estimates that net changes in distributor inventories will decrease the Company's sales by approximately \$30 million to \$35 million for the balance of 2018. Based on the Company's estimate, year-over-year changes in distributor inventories associated with these agreements is projected to unfavorably impact the Company's reported sales growth for the full year of 2018 by approximately \$60 million to \$70 million.

#### Europe

Net sales increased by 14.2% in the quarter ended March 31, 2018 as compared to the three months ended March 31, 2017. Net sales, excluding precious metal content, increased by 14.6% in the first quarter of 2018 as compared to the first quarter of 2017, which was positively impacted by approximately 14.0% due to the weakening of the U.S. dollar over the prior year period.

For the three month period ended March 31, 2018, net sales, excluding precious metal content, increased 0.6% on a constant currency basis. This includes a benefit of 0.4% from acquisitions, which results in internal sales growth of 0.2%. Internal sales growth was driven by the Consumables segment partially offset by declines in the Technologies & Equipment segment.

#### Rest of World

Net sales increased by 11.4% in the quarter ended March 31, 2018 as compared to the three months ended March 31, 2017. Net sales, excluding precious metal content, increased 11.6% in the first quarter of 2018 as compared to the first quarter of 2017, which was positively impacted by approximately 6.3% due to the weakening of the U.S. dollar over the prior year period.

For the three month period ended March 31, 2018, sales, excluding precious metal content, increased 5.3% on a constant currency basis. This includes a benefit of 0.6% from acquisitions, which results in internal sales growth of 4.7%. Internal sales growth was driven by both segments.

## Gross Profit

| (in millions)   | Three Months Ended March 31, |         | \$ Change | % Change |
|---|------------------------------|---------|-----------|----------|
|   | 2018                         | 2017    |           |          |
| Gross profit  | \$514.1                      | \$492.0 | \$ 22.1   | 4.5 %    |
| Gross profit as a percentage of net sales, including precious metal content | 53.8                         | % 54.6  | %         |          |
| Gross profit as a percentage of net sales, excluding precious metal content | 54.4                         | % 55.3  | %         |          |

Gross profit as a percentage of net sales, excluding precious metal content, decreased by 90 basis points for the quarter ended March 31, 2018 as compared to the same three month period ended March 31, 2017.

For the three months ended March 31, 2018, the decrease in the gross profit rate was primarily driven by unfavorable product mix and foreign currency impacts of 190 basis points which was partially offset by 90 basis points primarily related to benefits from the Company's global efficiency initiatives and favorable product pricing, as compared to the three months ended March 31, 2017.

## Operating Expenses

| (in millions)   | Three Months Ended March 31, |         | \$ Change | % Change |
|---|------------------------------|---------|-----------|----------|
|   | 2018                         | 2017    |           |          |
| Selling, general and administrative expenses ("SG&A")               | \$435.2                      | \$404.7 | \$ 30.5   | 7.5 %    |
| Restructuring and other costs                                       | 10.2                         | 3.1     | 7.1       | NM       |
| SG&A as a percentage of net sales, including precious metal content | 45.5                         | % 44.9  | %         |          |
| SG&A as a percentage of net sales, excluding precious metal content | 46.0                         | % 45.5  | %         |          |
| NM - Not meaningful   |                              |         |           |          |

## SG&A Expense

SG&A expenses, including research and developing expenses, as a percentage of net sales, excluding precious metal content, for the quarter ended March 31, 2018 increased 50 basis points compared to the quarter ended March 31, 2017. The higher rate was primarily driven by increased compensation costs, including employment agreement costs related to the resignation of senior management and professional service costs which unfavorably impacted the rate by approximately 120 basis points as compared to the year ended March 31, 2017. Partially offsetting these increases was a reduction in business combination related costs which favorably impacted the rate by 40 basis points and a favorable foreign currency impacts of 30 basis points.

## Restructuring and Other Cost

The Company recorded net restructuring and other costs of \$10.2 million for the three months ended March 31, 2018 compared to \$3.1 million for the three months ended March 31, 2017. The Company recorded \$7.4 million in restructuring costs and \$2.8 million in other costs related to legal settlements during the three months ended March 31,

2018.

Other Income and Expense

|                                | Three Months<br>Ended March<br>31, |        |          |
|--------------------------------|------------------------------------|--------|----------|
| (in millions)                  | 2018                               | 2017   | Change   |
| Net interest expense           | \$8.0                              | \$8.6  | \$(0.6 ) |
| Other expense (income), net    | (34.1 )                            | (1.0 ) | (33.1 )  |
| Net interest and other expense | \$(26.1)                           | \$7.6  | \$(33.7) |

40

---

## Net Interest Expense

Net interest expense for the three months ended March 31, 2018 decreased \$0.6 million compared to the three months ended March 31, 2017.

## Other Expense (Income), Net

Other expense (income), net for the three months ended March 31, 2018 was income of \$34.1 million, comprised primarily of a gain recorded on the sale of marketable securities. Other expense (income), net for the three months ended March 31, 2017 was expense of \$1.0 million, comprised primarily of \$0.5 million of income on net investment hedges and \$0.5 million of foreign currency translation gains.

## Income Taxes and Net Income

| (in millions, except per share data)       | Three Months<br>Ended March 31, |        |              |
|--|---------------------------------|--------|--------------|
|  | 2018                            | 2017   | \$<br>Change |
| Provision for income taxes                 | \$13.7                          | \$16.9 | \$ (3.2 )    |
| Effective income tax rate                  | 14.5 %                          | 22.1 % |              |
| Net income attributable to Dentsply Sirona | \$81.2                          | \$59.8 | \$ 21.4      |
| Net income per common share - diluted      | \$0.35                          | \$0.26 |              |

## Provision for Income Taxes

For the three months ended March 31, 2018, income taxes were a net expense of \$13.7 million as compared to a net expense of \$16.9 million in the quarter ended March 31, 2017.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act" or "U.S. tax reform") was enacted. U.S. tax reform, among other things, reduced the U.S. federal income tax rate to 21% in 2018 from 35%, instituted a dividends received deduction for foreign earnings with a related tax for the deemed repatriation of unremitted foreign earnings and created a new U.S. minimum tax on earnings of foreign subsidiaries. In addition, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance on accounting for enactment effects of SAB 118 and provides a measurement period of up to one year from the Act's enactment date for companies to complete their accounting under Accounting Standards Codification No. 740 "Income Taxes", ("ASC 740"). In accordance with SAB 118, to the extent that a company's accounting for certain income tax effects of the Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in its financial statements. If a company cannot determine a provisional estimate to be included in its financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Act. The Company has accounted for the tax effects of the Act on a provisional basis. At December 31, 2017, the accounting for certain income tax effects was incomplete, but the Company determined reasonable estimates for those effects which were included in the financial statements. During the three months ended March 31, 2018, a tax benefit of \$3.4 million related to provisional estimates was recorded. The Company expects to complete the accounting during 2018 to comply with the one year measurement period.

Based on information available, at December 31, 2017, the Company estimated the cumulative undistributed foreign earnings and recorded a provisional estimate of income tax expense related to the one-time deemed repatriation toll charge. There is still uncertainty as to the application of the Act, in particular as it relates to state income taxes. Further, the Company has not yet completed the analysis of the components of the computation, including the amount of the foreign earnings subject to U.S. income tax, and the portion of the foreign earnings held in cash or other specified assets. At March 31, 2018, primarily due to the utilization of foreign tax credit carryforwards and certain other tax attributes the estimated cash liability for the deemed repatriation of foreign earnings is approximately \$1.0 million. However, as the Company completes its analysis an additional liability could be recorded and the Company would elect to make installment payments as allowed under the Act.

As a result of the Act, the Company can repatriate the cumulative undistributed foreign earnings back to the U.S. when needed with minimal U.S. income tax consequences other than the one-time deemed repatriation toll charge. The Company is still evaluating whether to change its indefinite reinvestment assertion in light of the Act and consider that conclusion to be incomplete under SAB 118.

For the three months ended March 31, 2018, for the Global Intangible Low Tax Income (“GILTI”) provision of the Act, an estimate was recorded based on current guidance as a period expense, but the Company has not yet completed its assessment or elected an accounting policy to either recognize deferred taxes for basis differences expected to reverse as GILTI or to record GILTI as period costs if and when incurred.

In accordance with SEC guidance, provisional amounts may be refined as a result of additional guidance from, and interpretations by, U.S. regulatory and standard-setting bodies, and changes in assumptions. In subsequent periods, provisional amounts will be adjusted for the effects, if any, of interpretative guidance issued by the U.S. Department of the Treasury. The effects of the Act may be subject to changes for items that were previously reported as provisional amounts, as well as any element of the Act that a provisional estimate could not be made, and such changes could be material.

During the first quarter of 2018, the Company recorded the following discrete tax items, \$2.2 million of excess tax benefit related to employee share-based compensation, tax expense of \$1.2 million related to valuation allowances, \$0.2 million of tax expense related to enacted statutory rate changes, \$7.2 million of tax expense for other discrete tax matters and \$3.4 million tax benefit related to U.S. tax reform. The Company also recorded \$1.1 million of tax expense as a discrete item related to the gain on sale of marketable securities. Excluding these discrete tax items and adjusting pretax income for the gain on the sale of marketable securities, net of tax, the Company’s effective tax rate was 18.9%.

For the three months ended March 31, 2017, the Company recorded \$6.3 million of excess tax benefit related to employee share-based compensation, \$12.2 million of tax expense related to enacted statutory rate changes and \$1.4 million of tax benefit related to other discrete tax matters. Excluding these discrete tax items, adjusting pretax income to exclude the pretax gain related to the sale of marketable securities the Company’s effective tax rate was 16.2%.

The Company’s effective income tax rate for the first quarter of 2018 included the net impact of amortization of purchased intangible assets, restructuring program related costs and other costs, credit risk and fair value adjustments, business combination related costs, income tax related adjustments and the gain on sale of marketable securities, which impacted income before income taxes and the provision for income taxes by \$35.7 million and \$14.2 million, respectively.

The Company’s effective income tax rate for the first quarter of 2017 included the net impact of amortization of purchased intangible assets, business combination related costs, fair value adjustments, restructuring program related costs and other costs, credit risk and fair value adjustments and income tax related adjustments which impacted income before income taxes and the provision for income taxes by \$64.0 million and \$10.1 million, respectively.

#### Net income attributable to Dentsply Sirona

In addition to the results reported in accordance with US GAAP, the Company provides adjusted net income attributable to Dentsply Sirona and adjusted earnings per diluted common share (“adjusted EPS”). The Company discloses adjusted net income attributable to Dentsply Sirona to allow investors to evaluate the performance of the Company’s operations exclusive of certain items that impact the comparability of results from period to period and may not be indicative of past or future performance of the normal operations of the Company and certain large non-cash charges related to intangible assets either purchased or acquired through a business combination. The Company believes that this information is helpful in understanding underlying operating trends and cash flow generation.

Adjusted net income and adjusted EPS are important internal measures for the Company. Senior management receives a monthly analysis of operating results that includes adjusted net income and adjusted EPS and the performance of the Company is measured on this basis along with other performance metrics.

The adjusted net income attributable to Dentsply Sirona consists of net income attributable to Dentsply Sirona adjusted to exclude the following:

(1) Business combination related costs and fair value adjustments. These adjustments include costs related to integrating and consummating mergers and recently acquired businesses, as well as costs, gains and losses related to the disposal of businesses or significant product lines. In addition, this category includes the roll off to the consolidated statement of operations of fair value adjustments related to business combinations, except for amortization expense noted below. These items are irregular in timing and as such may not be indicative of past and future performance of the Company and are therefore excluded to allow investors to better understand underlying operating trends.

(2) Restructuring program related costs and other costs. These adjustments include costs related to the implementation of restructuring initiatives as well as certain other costs. These costs can include, but are not limited to, severance costs, facility closure costs, lease and contract terminations costs, related professional service costs, duplicate facility and labor costs associated with specific restructuring initiatives, as well as, legal settlements and impairments of assets. These items are irregular in timing, amount and impact to the Company's financial performance. As such, these items may not be indicative of past and future performance of the Company and are therefore excluded for the purpose of understanding underlying operating trends.

(3) Amortization of purchased intangible assets. This adjustment excludes the periodic amortization expense related to purchased intangible assets. Amortization expense has been excluded from adjusted net income attributed to Dentsply Sirona to allow investors to evaluate and understand operating trends excluding these large non-cash charges.

(4) Credit risk and fair value adjustments. These adjustments include both the cost and income impacts of adjustments in certain assets and liabilities including the Company's pension obligations, that are recorded through net income which are due solely to the changes in fair value and credit risk. These items can be variable and driven more by market conditions than the Company's operating performance. As such, these items may not be indicative of past and future performance of the Company and therefore are excluded for comparability purposes.

(5) Gain on sale of marketable securities. This adjustment represents the gain on the sale of marketable securities held by the Company. The gain has been excluded from adjusted net income attributed to Dentsply Sirona to allow investors to evaluate and understand operating trends excluding this gain.

(6) Income tax related adjustments. These adjustments include both income tax expenses and income tax benefits that are representative of income tax adjustments mostly related to prior periods, as well as the final settlement of income tax audits, and discrete tax items resulting from the implementation of restructuring initiatives and the vesting and exercise of employee share-based compensation. These adjustments are irregular in timing and amount and may significantly impact the Company's operating performance. As such, these items may not be indicative of past and future performance of the Company and therefore are excluded for comparability purposes.

Adjusted earnings per diluted common share is calculated by dividing adjusted net (loss) income attributable to Dentsply Sirona by diluted weighted-average common shares outstanding. Adjusted net income attributable to Dentsply Sirona and adjusted earnings per diluted common share are considered measures not calculated in accordance with US GAAP, and therefore are non-US GAAP measures. These non-US GAAP measures may differ from other companies. Income tax related adjustments may include the impact to adjust the interim effective income tax rate to the expected annual effective tax rate. The non-US GAAP financial information should not be considered in isolation from, or as a substitute for, measures of financial performance prepared in accordance with US GAAP.

| (in millions, except per share amounts)                       | Three Months<br>Ended<br>March 31, 2018 |                                   |
|---|---|-----------------------------------|
|   | Net<br>Income                           | Per<br>Diluted<br>Common<br>Share |
| Net income attributable to Dentsply Sirona                    | \$81.2                                  | \$ 0.35                           |
| Pre-tax non-US GAAP adjustments:                              |   |                                   |
| Amortization of purchased intangible assets                   | 50.0                                    |                                   |
| Restructuring program related costs and other costs           | 15.9                                    |                                   |
| Credit risk and fair value adjustments                        | 10.7                                    |                                   |
| Business combination related costs and fair value adjustments | 3.2                                     |                                   |
| Gain on sale of marketable securities                         | (44.1 )                                 |                                   |
| Tax impact of the pre-tax non-US GAAP adjustments (a)         | (22.9 )                                 |                                   |
| Subtotal non-US GAAP adjustments                              | 12.8                                    | 0.06                              |

|                                 |         |         |
|---------------------------------|---------|---------|
| Income tax related adjustments  | 8.7     | 0.04    |
| Adjusted non-US GAAP net income | \$102.7 | \$ 0.45 |

(a) The tax amount was calculated using the applicable statutory tax rate in the tax jurisdiction where the non-US GAAP adjustments were generated.

| (in millions, except per share amounts)                       | Three Months<br>Ended<br>March 31, 2017 |                                   |
|---|---|-----------------------------------|
|   | Net<br>Income                           | Per<br>Diluted<br>Common<br>Share |
| Net income attributable to Dentsply Sirona                    | \$59.8                                  | \$ 0.26                           |
| Pre-tax non-US GAAP adjustments:                              |   |                                   |
| Amortization of purchased intangible assets                   | 45.3                                    |                                   |
| Business combination related costs and fair value adjustments | 10.8                                    |                                   |
| Restructuring program related costs and other costs           | 5.4                                     |                                   |
| Credit risk and fair value adjustments                        | 2.5                                     |                                   |
| Tax impact of the pre-tax non-US GAAP adjustments (a)         | (12.8 )                                 |                                   |
| Subtotal non-US GAAP adjustments                              | 51.2                                    | 0.22                              |
| Income tax related adjustments                                | 2.7                                     | 0.01                              |
| Adjusted non-US GAAP net income                               | \$113.7                                 | \$ 0.49                           |

(a) The tax amount was calculated using the applicable statutory tax rate in the tax jurisdiction where the non-US GAAP adjustments were generated.

#### Adjusted Operating Income and Margin

Adjusted operating income and margin is another important internal measure for the Company. Operating income in accordance with US GAAP is adjusted for the items noted above which are excluded on a pre-tax basis to arrive at adjusted operating income, a non-US GAAP measure. The adjusted operating margin is calculated by dividing adjusted operating income by net sales, excluding precious metal content.

Senior management receives a monthly analysis of operating results that includes adjusted operating income. The performance of the Company is measured on this basis along with the adjusted non-US GAAP earnings noted above as well as other performance metrics. This non-US GAAP measure may differ from other companies and should not be considered in isolation from, or as a substitute for, measures of financial performance prepared in accordance with US GAAP.

| (in millions)   | Three Months<br>Ended<br>March 31, 2018 |   |   |
|---|---|---|---|
|   | Operating<br>Income                     | Percentage<br>of Net<br>Sales,<br>Excluding<br>Precious<br>Metal<br>Content |   |
| Operating income  | \$68.7                                  | 7.3   | % |
| Amortization of purchased intangible assets                   | 50.0                                    | 5.3   | % |
| Restructuring program related costs and other costs           | 15.9                                    | 1.6   | % |
| Business combination related costs and fair value adjustments | 3.0                                     | 0.3   | % |

|                                       |         |      |   |
|---------------------------------------|---------|------|---|
| Adjusted non-US GAAP Operating Income | \$137.6 | 14.5 | % |
|---------------------------------------|---------|------|---|

| (in millions)   | Three Months Ended March 31, 2017 |   |   |
|---|-----------------------------------|---|---|
|   | Operating Income                  | Percentage of Net Sales, Excluding Precious Metal Content |   |
| Operating income  | \$84.2                            | 9.5   | % |
| Amortization of purchased intangible assets                   | 45.3                              | 5.1   | % |
| Business combination related costs and fair value adjustments | 10.6                              | 1.2   | % |
| Restructuring program related costs and other costs           | 5.2                               | 0.5   | % |
| Credit risk and fair value adjustments                        | 2.6                               | 0.3   | % |
| Adjusted non-US GAAP Operating Income                         | \$147.9                           | 16.6  | % |

#### Operating Segment Results

##### Third Party Net Sales, Excluding Precious Metal Content

| (in millions)            | Three Months Ended March 31, |         |           |          |
|--------------------------|------------------------------|---------|-----------|----------|
|                          | 2018                         | 2017    | \$ Change | % Change |
| Technologies & Equipment | \$498.0                      | \$467.9 | \$30.1    | 6.4 %    |
| Consumables              | 447.8                        | 421.5   | 26.3      | 6.2 %    |

##### Segment Operating Income

| (in millions)            | Three Months Ended March 31, |        |           |          |
|--------------------------|------------------------------|--------|-----------|----------|
|                          | 2018                         | 2017   | \$ Change | % Change |
| Technologies & Equipment | \$74.8                       | \$54.0 | \$20.8    | 38.5 %   |
| Consumables              | 107.1                        | 116.0  | (8.9 )    | (7.7 %)  |

A reconciliation of reported net sales to net sales, excluding precious metal content, by segment is as follows:

| (in millions) | Three Months Ended March 31, 2018 |                   |
|---------------|-----------------------------------|-------------------|
|               | Technologies & Equipment          | Consumables Total |

Edgar Filing: DENTSPLY SIRONA Inc. - Form 10-Q

|   |         |          |         |
|---|---------|----------|---------|
| Net sales   | \$508.3 | \$ 447.8 | \$956.1 |
| Less: precious metal content of sales                   | 10.3    | —        | 10.3    |
| Non-US GAAP net sales, excluding precious metal content | \$498.0 | \$ 447.8 | \$945.8 |

45

---

| (in millions)   | Three Months Ended |             |         |
|---|--------------------|-------------|---------|
|   | March 31, 2017     |             |         |
|   | Technologies       | Consumables | Total   |
|   | Equipment          |             |         |
| Net sales   | \$479.0            | \$ 421.5    | \$900.5 |
| Less: precious metal content of sales                   | 11.1               | —           | 11.1    |
| Net sales, excluding precious metal content             | 467.9              | 421.5       | 889.4   |
| Merger related adjustments (a)                          | 1.5                | —           | 1.5     |
| Non-US GAAP net sales, excluding precious metal content | \$469.4            | \$ 421.5    | \$890.9 |

(a) Represents an adjustment to reflect deferred subscription and warranty revenue that was eliminated under business combination accounting standards to make the 2017 non-U.S. GAAP results comparable.

### Technologies & Equipment

Net sales increased by 6.1% in the quarter ended March 31, 2018 as compared to the three months ended March 31, 2017. Net sales, excluding precious metal content, increased by 6.4% in the first quarter of 2018 as compared to the first quarter of 2017. Net sales, excluding precious metal content, were positively impacted by approximately 7.8% due to the weakening of the U.S. dollar over the prior year period. The increase in net sales, excluding precious metal content, was favorably impacted, based on the Company's estimate, by approximately \$4 million as a result of net changes in equipment inventory levels in the current quarter as compared to the prior year quarter at certain distributors in North America and Europe, that the Company believes is related to the transition in distribution strategy (see "Business Drivers" under this section for further detail). Based on the Company's estimate, inventory held by these distributors decreased by approximately \$8 million during the three months ended March 31, 2018, compared to an decrease of approximately \$12 million in the same three month period in 2017. At this time, the Company estimates that net changes in distributor inventories will decrease the Company's sales by approximately \$35 million to \$40 million for the balance of 2018. Based on the Company's estimate, year-over-year changes in distributor inventories associated with these agreements is projected to unfavorably impact the Company's reported sales growth for the full year of 2018 by approximately \$70 million to \$75 million.

For the three months ended March 31, 2018, net sales, excluding precious metal content, decreased 1.7% on a constant currency basis compared to the three months ended March 31, 2017. This includes a decrease of approximately 0.1% related to the disposal of a non-strategic business, which results in negative internal sales growth of 1.6%. The decline in internal sales growth was driven by the U.S., mostly offset by internal sales growth in Rest of World region.

The operating income increased \$20.8 million or 38.5% for the three months ended March 31, 2018 as compared to the same three month period in 2017. This increase is primarily driven by favorable foreign currency and positive product pricing, which was partially offset by unfavorable product mix. Based on the the Company's assessment, operating income was favorably impacted by the change in net equipment inventory as discussed above.

### Consumables

Net sales increased by 6.2% in the quarter ended March 31, 2018 as compared to the three months ended March 31, 2017. Net sales, excluding precious metal content, increased 6.2% for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017. Net sales, excluding precious metal content, were positively impacted by approximately 6.6% due to the weakening of the U.S. dollar over the same prior year period.

For the three month period ended March 31, 2018, net sales, excluding precious metal content, decreased 0.4% on a constant currency basis. This includes a benefit of 0.9% from acquisitions, which results in negative internal sales growth of 1.3%. The negative internal sales growth was primarily driven by the U.S., mostly offset by Rest of World region.

The operating income decreased \$8.9 million or 7.7% for the three months ended March 31, 2018 as compared to the same three month period in 2017. This decrease was primarily driven by unfavorable product mix and higher operating costs, partially offset by favorable impact of foreign currency and positive product pricing.

## CRITICAL ACCOUNTING POLICIES

Except as noted below, there have been no other significant material changes to the critical accounting policies as disclosed in the Company's Form 10-K for the year ended December 31, 2017.

### Annual Goodwill Impairment Testing

#### Goodwill

Goodwill is not amortized; instead, it is tested for impairment annually or more frequently if indicators of impairment exist or if a decision is made to sell a business. The valuation date for annual impairment testing is April 30.

At December 31, 2017 the Company identified impairment triggering events related to CAD/CAM, Imaging and Treatment Center Equipment reporting units all within the Technologies & Equipment segment. As a result, the Company tested these reporting units for impairment and recorded an impairment charge. Fair value of these reporting units approximates book value of these reporting units. At March 31, 2018, the Company noted no impairment triggering events related to these reporting units. Should the Company's analysis in the future indicate an increase in discount rates or a degradation in the overall markets served by these reporting units, it could result in impairment of the carrying value of goodwill to its implied fair value. There can be no assurance that the Company's future goodwill impairment testing will not result in a charge to earnings.

#### Indefinite-Lived Assets

Indefinite-lived intangible assets consist of tradenames and are not subject to amortization; instead, they are tested for impairment annually or more frequently if indicators of impairment exist or if a decision is made to sell a business. The valuation date for annual impairment testing is April 30.

At December 31, 2017 the Company, as a result of the triggering event, tested the indefinite-lived intangible assets related to CAD/CAM, Imaging and Treatment Center equipment reporting units. The Company identified that certain tradenames and trademarks related to these reporting units, all within the Technologies & Equipment segment, were impaired and recorded an impairment charge. At March 31, 2018, the Company noted no impairment triggering events related to these reporting units.

Should the Company's analysis in the future indicate an increase in discount rates or a degradation in the use of the tradenames, it could result in impairment of the carrying value of the indefinite-lived assets to its implied fair value. There can be no assurance that the Company's future indefinite-lived asset impairment testing will not result in a charge to earnings.

#### Income Taxes

The Company has accounted for the tax effects of The Tax Cuts and Jobs Act, enacted on December 22, 2017, on a provisional basis. At December 31, 2017, the accounting for certain income tax effects was incomplete, but the Company determined reasonable estimates for those effects which were included in the financial statements. The Company expects to complete the accounting during 2018 to comply with the one year measurement period.

## LIQUIDITY AND CAPITAL RESOURCES

Three months ended March 31, 2018

Net income increased \$21.4 million compared to the March 31, 2017 period, primarily due to a gain on the sale of marketable securities partially offset by higher SG&A expenses. Cash flow from operating activities during the three months ended March 31, 2018 was \$55.1 million compared to \$82.5 million during the three months ended March 31, 2017. Cash from operations decreased \$27.4 million for the first three months of 2018 as compared to the same period in 2017 and was primarily due to payments of accrued liabilities and higher inventory levels partially offset by lower accounts receivable. The Company's cash and cash equivalents decreased by \$3.5 million to \$317.1 million during the three months ended March 31, 2018.

For the three months ended March 31, 2018, the number of days of sales outstanding in accounts receivable decreased by 13 days to 48 days as compared to 61 days at December 31, 2017. On a constant currency basis, the number of days of sales in inventory increased by 9 days to 140 days at March 31, 2018 as compared to 131 days at December 31, 2017.

Cash used in investing activities during the first three months of 2018 included capital expenditures of \$35.8 million as well as capital deployment of \$10.0 million related to an acquisition and the purchase of intellectual property. The Company expects capital expenditures to be in the range of approximately \$130 million to \$140 million for the full year 2018.

Cash used in financing activities for the three months ended March 31, 2018 was primarily related to dividend payments and payment of short term borrowings, partially offset by proceeds from stock option exercises.

At March 31, 2018, the Company had authorization to maintain up to \$500.0 million of shares of treasury stock under its stock repurchase program. On February 14, 2018, the Board of Directors of the Company approved an increase in the authorized number of shares of common stock that may be repurchased under the share repurchase program for a total remaining authorization of \$500 million of shares of common stock. Additional share repurchases, if any, will be made through open market purchases, Rule 10b5-1 plans, accelerated share repurchases, privately negotiated transactions or other transactions in such amounts and at such times as the Company deems appropriate based upon prevailing market and business conditions and other factors. There were no purchases under this program during the first three months of 2018. As of March 31, 2018, the Company held 37.1 million shares of treasury stock. The Company received proceeds of \$8.3 million as a result of the exercise of 0.2 million of stock options during the three months ended March 31, 2018.

The Company's total borrowings increased by a net \$26.4 million during the three months ended March 31, 2018, which includes an increase of \$35.1 million due to exchange rate fluctuations on debt denominated in foreign currencies. At March 31, 2018, the Company's ratio of total net debt to total capitalization was 16.8% compared to 16.6% at December 31, 2017. The Company defines net debt as total debt, including current and long-term portions, less cash and cash equivalents and total capitalization as the sum of net debt plus equity.

The Company is obligated to pay annual principal amortization of \$8.8 million representing a 5% mandatory principal amortization due in each of the first nine years under the terms of the PNC Term Loan with a final maturity of August 25, 2020. The fifth annual installment in the amount of \$8.8 million will be due in August 2018 and has been classified as current on the Consolidated Balance Sheets.

Under its five-year multi-currency revolving credit agreement, the Company is able to borrow up to \$500.0 million through July 23, 2021. The facility is unsecured and contains certain affirmative and negative covenants relating to the operations and financial condition of the Company. The most restrictive of these covenants pertain to asset dispositions and prescribed ratios of indebtedness to total capital and operating income plus depreciation and amortization to interest expense. At March 31, 2018, the Company was in compliance with these covenants. The Company also has available an aggregate \$500.0 million under a U.S. dollar commercial paper facility. The five-year revolver serves as a back-up to the commercial paper facility, thus the total available credit under the commercial paper facility and the multi-currency revolving credit facilities in the aggregate is \$500.0 million. At March 31, 2018, there were no outstanding borrowings under the current \$500.0 million multi-currency revolving credit facility.

The Company also has access to \$50.1 million in uncommitted short-term financing under lines of credit from various financial institutions. The lines of credit have no major restrictions and are provided under demand notes between the Company and the lending institutions. At March 31, 2018, the Company had \$13.5 million outstanding under these short-term lines of credit. At March 31, 2018, the Company had total unused lines of credit related to the revolving credit agreement and the uncommitted short-term lines of credit of \$536.6 million.

At March 31, 2018, the Company held \$42.4 million of precious metals on consignment from several financial institutions. The consignment agreements allow the Company to acquire the precious metal at market rates at a point in time which is approximately the same time and for the same price as alloys are sold to the Company's customers. In

the event that the financial institutions would discontinue offering these consignment arrangements, and if the Company could not obtain other comparable arrangements, the Company may be required to obtain third party financing to fund an ownership position in the required precious metal inventory levels.

As a result of U.S. tax reform, \$271.7 million of cash and cash equivalents held by the Company's non-U.S. subsidiaries was subject to current tax in the U.S. in 2017. At March 31, 2018 the Company had not repatriated any of these funds to the U.S. However, to the extent the Company repatriates these funds to the U.S., the Company will be required to pay income taxes in certain U.S. states and applicable foreign withholding taxes on those amounts during the period when such repatriation occurs.

Except as stated above, there have been no material changes to the Company's scheduled contractual cash obligations disclosed in its Form 10-K for the year ended December 31, 2017.

The Company continues to review its debt portfolio and may refinance additional debt in the near-term as interest rates remain at historically low levels.

#### NEW ACCOUNTING PRONOUNCEMENTS

Refer to Part 1, Item 1, Note 1, Significant Accounting Policies, to the Unaudited Interim Consolidated Financial Statements of this Form 10-Q for a discussion of recent accounting standards and pronouncements.

#### Item 3 – Quantitative and Qualitative Disclosures about Market Risk

There have been no significant material changes to the market risks as disclosed in the Company's Form 10-K for the year ended December 31, 2017.

#### Item 4 – Controls and Procedures

##### Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report were effective to provide reasonable assurance that the information required to be disclosed by the Company in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that it is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

##### Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting that occurred during the quarter ended March 31, 2018, that have materially affected, or are likely to materially affect, its internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1 – Legal Proceedings

Reference to Part I, Item 1, Note 14 Commitments and Contingencies, in the Notes to Unaudited Interim Consolidated Financial Statements of this Form 10-Q.

### Item 1A – Risk Factors

There have been no material changes to the risk factors as disclosed in Part 1A, “Risk Factors” in the Company’s Form 10-K for the year ended December 31, 2017.

### Item 2 – Unregistered Sales of Securities and Use of Proceeds

#### Issuer Purchases of Equity Securities

On February 14, 2018, the Board of Directors of the Company approved an increase in the authorized number of shares of common stock that may be repurchased under the share repurchase program for a total remaining authorization of \$500.0 million of shares of common stock. On April 25, 2018, the Board of Directors of the Company approved a further increase in the share repurchase authorization to a total of \$1.0 billion. Additional share repurchases, if any, will be made through open market purchases, Rule 10b5-1 plans, accelerated share repurchases, privately negotiated transactions or other transactions in such amounts and at such times as the Company deems appropriate based upon prevailing market and business conditions and other factors.

During the quarter ended March 31, 2018, the Company had no repurchases of common shares under the stock repurchase program.

Item 6 – Exhibits

| Exhibit Number | Description   |
|----------------|---|
| <u>31.1</u>    | Section 302 Certification Statement Chief Executive Officer |
| <u>31.2</u>    | Section 302 Certification Statement Chief Financial Officer |
| <u>32</u>      | Section 906 Certification Statements                        |
| 101.INS        | XBRL Instance Document                                      |
| 101.SCH        | XBRL Taxonomy Extension Schema Document                     |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document       |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document        |
| 101.LAB        | XBRL Extension Labels Linkbase Document                     |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase Document      |

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Company has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DENTSPLY SIRONA Inc.

/s/Donald M. Casey, Jr.      May 7, 2018  
Donald M. Casey, Jr.      Date  
Chief Executive Officer

/s/Nicholas W. Alexos      May 7, 2018  
Nicholas W. Alexos      Date  
Executive Vice President and  
Chief Financial Officer