

DENTSPLY SIRONA Inc.  
Form 10-Q  
November 04, 2016

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 September 30, 2016  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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 website, 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, or a smaller reporting company. See definition of "large accelerated filer" and "accelerated filer" and "smaller reporting

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

company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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  
October 27, 2016, DENTSPLY SIRONA Inc. had 230,880,470 shares of Common Stock outstanding, with a par value of \$.01 per share.

---

DENTSPLY SIRONA Inc.

TABLE OF CONTENTS

<u>PART I FINANCIAL INFORMATION</u>	Page
<u>Item 1 Financial Statements (unaudited)</u>	<u>3</u>
<u>Consolidated Statements of Operations</u>	<u>3</u>
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	<u>4</u>
<u>Consolidated Balance Sheets</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows</u>	<u>6</u>
<u>Consolidated Statements of Changes in Equity</u>	<u>7</u>
<u>Notes to Unaudited Interim Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2 Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>35</u>
<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	<u>56</u>
<u>Item 4 Controls and Procedures</u>	<u>56</u>
<u>PART II OTHER INFORMATION</u>	
<u>Item 1 Legal Proceedings</u>	<u>58</u>
<u>Item 1A Risk Factors</u>	<u>58</u>
<u>Item 2 Unregistered Sales of Securities and Use of Proceeds</u>	<u>58</u>
<u>Item 6 Exhibits</u>	<u>59</u>
<u>Signatures</u>	<u>59</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 Ended		Nine Months Ended	
	September 30, 2016	2015	September 30, 2016	2015
Net sales	\$954.2	\$648.9	\$2,748.8	\$2,003.2
Cost of products sold	440.6	279.4	1,289.4	860.7
Gross profit	513.6	369.5	1,459.4	1,142.5
Selling, general and administrative expenses	379.1	264.3	1,123.3	809.5
Restructuring and other costs	7.9	6.6	15.6	50.9
Operating income	126.6	98.6	320.5	282.1
Other income and expenses:				
Interest expense	8.4	9.6	26.9	30.1
Interest income	(0.5)	(0.4)	(1.4)	(1.8)
Other expense (income), net	1.6	(3.8)	(13.3)	(3.6)
Income before income taxes	117.1	93.2	308.3	257.4
Provision (benefit) for income taxes	24.8	19.6	(15.2)	63.2
Equity in net income (loss) of unconsolidated affiliated company	—	10.8	—	(1.7)
Net income	92.3	84.4	323.5	192.5
Less: Net (loss) income attributable to noncontrolling interests	(0.2)	(0.1)	0.6	(0.1)
Net income attributable to Dentsply Sirona	\$92.5	\$84.5	\$322.9	\$192.6
Earnings per common share:				
Basic	\$0.40	\$0.60	\$1.51	\$1.38
Diluted	\$0.39	\$0.59	\$1.48	\$1.35
Weighted average common shares outstanding:				
Basic	232.6	139.8	213.8	140.0
Diluted	236.3	142.4	217.4	142.5

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

DENTSPLY SIRONA INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In millions)  
(unaudited)

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Net income	\$92.3	\$84.4	\$323.5	\$192.5
Other comprehensive income (loss), net of tax:				
Foreign currency translation gain (loss)	38.8	(37.7 )	132.8	(150.6 )
Net (loss) gain on derivative financial instruments	(4.2 )	1.1	(20.5 )	9.0
Net unrealized holding loss on available-for-sale securities	—	(78.8 )	—	(8.5 )
Pension liability gain	1.3	2.9	3.1	4.3
Total other comprehensive income (loss), net of tax	35.9	(112.5 )	115.4	(145.8 )
Total comprehensive income (loss)	128.2	(28.1 )	438.9	46.7
Less: Comprehensive income attributable to noncontrolling interests	0.5	—	1.4	0.5
Comprehensive income (loss) attributable to Dentsply Sirona	\$127.7	\$(28.1)	\$437.5	\$46.2

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

DENTSPLY SIRONA INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(In millions, except per share amounts)  
(unaudited)

	September 30, 2016	December 31, 2015
Assets		
Current Assets:		
Cash and cash equivalents	\$ 330.7	\$ 284.6
Accounts and notes receivables-trade, net	672.1	399.9
Inventories, net	556.4	340.4
Prepaid expenses and other current assets, net	282.4	171.8
Total Current Assets	1,841.6	1,196.7
Property, plant and equipment, net	822.9	558.8
Identifiable intangible assets, net	3,135.6	600.7
Goodwill, net	6,056.7	1,987.6
Other noncurrent assets, net	95.6	59.1
Total Assets	\$ 11,952.4	\$ 4,402.9
Liabilities and Equity		
Current Liabilities:		
Accounts payable	\$ 224.0	\$ 133.6
Accrued liabilities	482.8	310.1
Income taxes payable	47.0	20.2
Notes payable and current portion of long-term debt	16.4	12.1
Total Current Liabilities	770.2	476.0
Long-term debt	1,569.8	1,141.0
Deferred income taxes	854.5	160.3
Other noncurrent liabilities	400.8	286.2
Total Liabilities	3,595.3	2,063.5
Commitments and contingencies		
Equity:		
Preferred stock, \$1.00 par value; 0.3 million shares authorized; no shares issued	—	—
Common stock, \$.01 par value; 400.0 million and 200.0 million shares authorized at September 30, 2016 and December 31, 2015, respectively 264.5 million and 162.8 million shares issued at September 30, 2016 and December 31, 2015, respectively 231.6 million and 140.1 million shares outstanding at September 30, 2016 and December 31, 2015, respectively.	2.6	1.6
Capital in excess of par value	6,509.3	237.8

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

Retained earnings	3,859.0	3,591.0
Accumulated other comprehensive loss	(479.4	) (594.0
Treasury stock, at cost, 32.9 million and 22.7 million shares at September 30, 2016 and December 31, 2015, respectively	(1,547.4	) (898.4
Total Dentsply Sirona Equity	8,344.1	2,338.0
Noncontrolling interests	13.0	1.4
Total Equity	8,357.1	2,339.4
Total Liabilities and Equity	\$ 11,952.4	\$ 4,402.9
See accompanying Notes to Unaudited Interim Consolidated Financial Statements.		

5

---

DENTSPLY SIRONA INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(unaudited)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$323.5	\$192.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	87.0	61.6
Amortization	109.9	32.8
Amortization of deferred financing costs	3.6	3.3
Deferred income taxes	(102.0 )	39.2
Share-based compensation expense	29.4	19.5
Restructuring and other costs - non-cash	4.2	37.8
Excess tax benefits from share-based compensation	(11.3 )	(10.0 )
Equity in net loss from unconsolidated affiliates	—	1.7
Other non-cash income	(41.4 )	(10.0 )
Loss on disposal of property, plant and equipment	1.8	0.6
Changes in operating assets and liabilities, net of acquisitions:		
Accounts and notes receivable-trade, net	(92.9 )	(27.9 )
Inventories, net	40.9	10.1
Prepaid expenses and other current assets, net	(22.7 )	(7.0 )
Other noncurrent assets, net	4.9	4.1
Accounts payable	(1.4 )	11.2
Accrued liabilities	2.5	4.6
Income taxes	(8.7 )	(7.2 )
Other noncurrent liabilities	13.7	14.1
Net cash provided by operating activities	341.0	371.0
Cash flows from investing activities:		
Capital expenditures	(79.0 )	(51.7 )
Cash assumed in Sirona merger	522.3	—
Cash paid for acquisitions of businesses, net of cash acquired	(341.8 )	(3.3 )
Cash received from sale of business or product line	6.0	—
Cash received on derivatives contracts	12.7	22.4
Cash paid on derivatives contracts	(15.7 )	(0.8 )
Expenditures for identifiable intangible assets	(1.1 )	—
Proceeds from redemption of Corporate Bonds	—	47.7
Purchase of Company-owned life insurance policies	(1.7 )	(1.4 )
Proceeds from sale of property, plant and equipment, net	4.9	0.3
Net cash provided by investing activities	106.6	13.2



Cash flows from financing activities:

(Decrease) increase in short-term borrowings	(47.7 )	0.9
Cash paid for treasury stock	(694.7 )	(112.7 )
Cash dividends paid	(46.7 )	(29.9 )
Cash paid for acquisition of noncontrolling interests of consolidated subsidiary	—	(80.4 )
Proceeds from long-term borrowings	840.7	—
Repayments on long-term borrowings	(503.2 )	(109.1 )
Proceeds from exercised stock options	26.8	27.2
Excess tax benefits from share-based compensation	11.3	10.0
Net cash used in financing activities	(413.5 )	(294.0 )
Effect of exchange rate changes on cash and cash equivalents	12.0	(5.4 )
Net increase in cash and cash equivalents	46.1	84.8
Cash and cash equivalents at beginning of period	284.6	151.6
Cash and cash equivalents at end of period	\$330.7	\$236.4

Schedule of non-cash investing activities:

Merger financed by common stock \$6,256.2 \$—

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

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

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Dentsply Sirona Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2014	\$ 1.6	\$ 221.7	\$ 3,380.7	\$ (441.1 )	\$(841.6)	\$ 2,321.3	\$ 0.9	\$ 2,322.2
Net income	—	—	192.6	—	—	192.6	(0.1 )	192.5
Other comprehensive (loss) income	—	—	—	(146.4 )	—	(146.4 )	0.6	(145.8 )
Exercise of stock options	—	(6.2 )	—	—	33.2	27.0	—	27.0
Tax benefit from stock options exercised	—	10.0	—	—	—	10.0	—	10.0
Share based compensation expense	—	19.4	—	—	—	19.4	—	19.4
Funding of Employee Stock Ownership Plan	—	1.1	—	—	3.7	4.8	—	4.8
Treasury shares purchased	—	—	—	—	(112.7 )	(112.7 )	—	(112.7 )
RSU distributions	—	(14.3 )	—	—	8.7	(5.6 )	—	(5.6 )
RSU dividends	—	0.3	(0.3 )	—	—	—	—	—
Cash dividends (\$0.2175 per share)	—	—	(30.3 )	—	—	(30.3 )	—	(30.3 )
Balance at September 30, 2015	\$ 1.6	\$ 232.0	\$ 3,542.7	\$ (587.5 )	\$(908.7)	\$ 2,280.1	\$ 1.4	\$ 2,281.5
	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Dentsply Sirona Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2015	\$ 1.6	\$ 237.8	\$ 3,591.0	\$ (594.0 )	\$(898.4 )	\$ 2,338.0	\$ 1.4	\$ 2,339.4
Net income	—	—	322.9	—	—	322.9	0.6	323.5
Other comprehensive income	—	—	—	114.6	—	114.6	0.8	115.4
Common stock issuance related to Sirona merger	1.0	6,255.2	—	—	—	6,256.2	10.2	6,266.4
Exercise of stock options	—	(9.0 )	—	—	35.6	26.6	—	26.6
Tax benefit from stock options exercised	—	11.3	—	—	—	11.3	—	11.3

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

Share based compensation expense	—	29.4	—	—	—	29.4	—	29.4
Funding of Employee Stock Ownership Plan	—	2.1	—	—	4.2	6.3	—	6.3
Treasury shares purchased	—	—	—	—	(699.6 )	(699.6 )	—	(699.6 )
RSU distributions	—	(18.0 )	—	—	10.8	(7.2 )	—	(7.2 )
RSU dividends	—	0.5	(0.5 )	—	—	—	—	—
Cash dividends (\$0.2325 per share)	—	—	(54.4 )	—	—	(54.4 )	—	(54.4 )
Balance at September 30, 2016	\$ 2.6	\$6,509.3	\$3,859.0	\$ (479.4 )	\$(1,547.4)	\$ 8,344.1	\$ 13.0	\$8,357.1

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

DENTSPLY SIRONA Inc. and Subsidiaries

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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 DENTSPLY International Inc.’s most recent Form 10-K for the year ended December 31, 2015.

On February 29, 2016, DENTSPLY International Inc. merged with Sirona Dental Systems, Inc. (“Sirona”) to form DENTSPLY SIRONA Inc. The accompanying unaudited interim Consolidated Statements of Operations for the three and nine months ended September 30, 2016 include the results of operations for Sirona for the period February 29, 2016 to September 30, 2016. The accompanying unaudited interim Consolidated Balance Sheets at September 30, 2016 includes Sirona’s acquired assets and assumed liabilities. See Note 5, Business Combinations, for additional information about the merger.

Reference throughout this Form 10-Q to “DENTSPLY”, or the “Company” refers to financial information and transactions of DENTSPLY International Inc. prior to February 29, 2016 and DENTSPLY SIRONA Inc, or the “Company”, thereafter.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company, as applied in the interim consolidated financial statements presented herein are substantially the same as presented in DENTSPLY’s Form 10-K for the year ended December 31, 2015, except as may be indicated below:

Accounts and Notes Receivable

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

Accounts and notes receivables – trade, net are stated net of allowances for doubtful accounts and trade discounts, which were \$21.9 million at September 30, 2016 and \$10.7 million at December 31, 2015.

Marketable Securities

The Company accounts for its direct investment in the DIO Corporation (“DIO”) using the cost-basis method of accounting. At September 30, 2016, the fair value of the direct investment was \$90.6 million.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” that seeks to provide a single, comprehensive revenue

recognition model for all contracts with customers that improve comparability within industries, across industries and across capital markets. Under this standard, an entity should recognize revenue for the transfer of goods or services equal to the amount it expects to be entitled to receive for those goods or services. Enhanced disclosure requirements regarding the nature, timing and uncertainty of revenue and related cash flows exist. To assist entities in applying the standard, a five step model for recognizing and measuring revenue from contracts with customers has been introduced. Entities have the option to apply the new guidance retrospectively to each prior reporting period presented (full retrospective approach) or retrospectively with a cumulative effect adjustment to retained earnings for initial application of the guidance at the date of initial adoption (modified retrospective method). On July 9, 2015, the FASB issued ASU No. 2015-14, deferring the effective date by one year to annual reporting periods beginning after December 15, 2017. Early adoption is permitted. In April 2016, the FASB issued ASU No. 2016-10, which clarifies the “identifying performance obligations and licensing implementations guidance” aspects of Topic 606. In May 2016, the FASB issued ASU No. 2016-11, which amends and or rescinds certain aspects of the Accounting Standards Codification (“ASC”) to reflect the requirements under Topic 606. Additionally, the FASB issued ASU No. 2016-12, which clarifies the criteria for assessing collectibility, permits an entity to elect an accounting policy to exclude from the transaction price amounts collected from customers

for all sales taxes, and provides a practical expedient that permits an entity to reflect the aggregate effect of all contract modifications that occur before the beginning of the earliest period presented in accordance with Topic 606. The Company expects to adopt these accounting standards for the quarter ended March 31, 2018. The Company is currently assessing the impact that these pronouncements may have on its financial position, results of operations, cash flows and disclosures, as well as the transition method it will use to adopt the guidance.

In July 2015, the FASB issued ASU No. 2015-11, "Simplifying the Measurement of Inventory." This accounting standard requires that an entity measure inventory at the lower of cost or net realizable value, as opposed to the lower of cost or market value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Excluded from this update are the last-in, first-out ("LIFO") and retail inventory methods of accounting for inventory. The amendments in this standard are effective for interim and fiscal periods beginning after December 15, 2016. Prospective application is required for presentation purposes. The Company is currently assessing the impact that this pronouncements may have on its financial position and disclosures.

In September 2015, the FASB issued ASU No. 2015-16, "Simplifying Accounting for Measurement Period Adjustments." This accounting standard seeks to simplify the accounting related to business combinations. Current US GAAP requires retrospective adjustment for provisional amounts recognized during the measurement periods when facts and circumstances that existed at the measurement date, if known, would have affected the measurement of the accounts initially recognized. This standard eliminates the requirement for retrospective adjustments and requires adjustments to the Financial Statements as needed in current period earnings for the full effect of changes. The Company adopted this accounting standard for the quarter ended March 31, 2016. The adoption of this standard did not materially impact the Company's financial position or results of operations.

In November 2015, the FASB issued ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes." This accounting standard seeks to simplify the accounting related to deferred income taxes. Current US GAAP requires an entity to separate deferred tax assets ("DTAs") and deferred tax liabilities ("DTLs") into current and noncurrent amounts for each tax jurisdiction based on the classification of the related asset or liability for financial reporting. DTAs and DTLs not related to assets and liabilities for financial reporting are classified based on the expected reversal date. The new standard requires DTAs or DTLs for each tax jurisdictions to be classified as noncurrent in a classified statement of financial position. The adoption of this standard is required for interim and fiscal periods ending after December 15, 2016 and is permitted to be adopted prospectively or retrospectively. The Company is currently assessing the impact that this standard may have on its financial position and disclosures.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." This newly issued accounting standard seeks to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information as well as to improve and achieve convergence of the FASB and International Accounting Standards Board ("IASB") standards on the accounting for financial instruments. The amendments allow equity investments that do not have readily determinable fair values to be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment. It also requires enhanced disclosures about those investments and reduces the number of items that are recognized in other comprehensive income. The adoption of this standard is required for interim and fiscal periods ending after December 15, 2017 and should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The Company is currently assessing the impact that this standard may have on its financial position, results of operations, cash flows and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, "Leases." This newly issued accounting standard seeks to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities in 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 in the balance sheet. This standard also provides guidance from the lessees prospective on how to determine if a lease is an operating lease or a financing lease and the differences in accounting for each. The adoption of this standard is required for interim and fiscal periods ending after

December 15, 2018 and it is required to be applied retrospectively 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 March 2016, the FASB issued ASU No. 2016-09, "Stock Compensation." This newly issued accounting standard seeks to simplify the accounting for all entities that issue share-based payment awards to their employees. The primary areas of change include accounting for income taxes, cash flow statement classification of excess tax benefits and employee taxes paid when an employer withholds shares, accounting for forfeitures and tax withholding requirements. The adoption of this standard is required for interim and fiscal periods ending after December 15, 2016. Early adoption is permitted. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements and forfeitures should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. Amendments related to the presentation of employee taxes paid in the statement of cash flows

when an employer withholds shares to meet the minimum statutory withholding requirement should be applied retrospectively. Amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement should be applied prospectively. 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 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows." This newly issued accounting standard seeks to clarify the presentation of eight specific cash flow issues in order to reduce diversity in practice. The topics of clarification include debt prepayment or extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interest in securitization transactions, and separately identifiable cash flows. The amendments in this update are effective for interim and fiscal periods beginning after December 15, 2017. Early adoption is permitted. The amendments in this update should be applied using a retrospective transition method to each period presented. The Company is currently assessing the impact that this standard will have on the presentation of its Consolidated Statements of Cash Flows.

#### 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 and nine months ended September 30, 2016 and 2015.

(in millions)	Three Months Ended		Nine Months Ended	
	2016	2015	2016	2015
Stock option expense	\$ 2.7	\$ 2.3	\$7.7	\$6.0
RSU expense	9.1	5.1	20.7	12.5
Total stock based compensation expense	\$ 11.8	\$ 7.4	\$28.4	\$18.5
Total related tax benefit	\$ 3.0	\$ 2.1	\$7.1	\$5.5

For the three and nine months ended September 30, 2016, stock compensation expense of \$11.8 million and \$28.4 million, respectively, of which, \$11.6 million and \$28.0 million, respectively, was recorded in Selling, general and administrative expenses and \$0.2 million and \$0.4 million, respectively, was recorded in Cost of products sold in the Consolidated Statements of Operations. For the three and nine months ended September 30, 2015, stock compensation expense of \$7.4 million and \$18.5 million, respectively, of which \$7.1 million and \$18.0 million, respectively, was recorded in Selling, general and administrative expense and \$0.3 million and \$0.5 million, respectively, was recorded in Cost of products sold in the Consolidated Statements of Operations.

#### NOTE 3 – COMPREHENSIVE INCOME

The following table summarizes the components of comprehensive income, net of tax, for the three and nine months ended September 30, 2016 and 2015:

(in millions)	Three Months Ended		Nine Months Ended	
	2016	2015	2016	2015
Foreign currency translation gains	\$ 42.2	\$ 2.3	\$149.4	\$ —
Foreign currency translation losses	—	—	—	(150).4
Foreign currency translation gain on hedges of net investments	—	0.5	—	—



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

Foreign currency translation loss on hedges of net investments (4.1 ) — (17.4 ) (0.8)

These amounts are recorded in AOCI, net of any related tax adjustments. At September 30, 2016 and December 31, 2015, the cumulative tax adjustments were \$191.5 million and \$169.3 million, respectively, primarily related to foreign currency translation gains and losses.

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

The cumulative foreign currency translation adjustments included translation losses of \$158.1 million and \$307.5 million at September 30, 2016 and December 31, 2015, respectively, and cumulative losses on loans designated as hedges of net investments of \$111.1 million and \$93.7 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 nine months ended September 30, 2016 and 2015:

(in millions)	Foreign Currency Translation Gain (Loss)	Gain	Gain (Loss)	Pension Liability Gain (Loss)	Total
		(Loss) on Derivative Financial Instruments Designated as Cash Flow Hedges	on Derivative Financial Instruments Designated as Net Investment Hedges		
Balance at December 31, 2015	\$ (401.2 )	\$ (1.2 )	\$ (110.2 )	\$ (81.4 )	\$ (594.0)
Other comprehensive income (loss) before reclassifications and tax impact	119.9	(6.7 )	(21.6 )	0.6	92.2
Tax impact	12.1	2.0	8.3	(0.2 )	22.2
Other comprehensive income (loss), net of tax, before reclassifications	132.0	(4.7 )	(13.3 )	0.4	114.4
Amounts reclassified from accumulated other comprehensive income (loss)	—	(2.5 )	—	2.7	0.2
Net increase (decrease) in other comprehensive income	132.0	(7.2 )	(13.3 )	3.1	114.6
Balance at September 30, 2016	\$ (269.2 )	\$ (8.4 )	\$ (123.5 )	\$ (78.3 )	\$ (479.4)

(in millions)	Foreign Currency Translation Gain (Loss)	Gain	Gain	Net Unrealized Holding Gain (Loss) on Available-for-Sale Securities	Pension Liability Gain (Loss)	Total
		(Loss) on Derivative Financial Instruments Designated as Cash Flow Hedges	(Loss) on Derivative Financial Instruments Designated as Net Investment Hedges			
Balance at December 31, 2014	\$ (212.5 )	\$ (10.8 )	\$ (112.7 )	\$ 8.5	\$ (113.6)	\$ (441.1)
Other comprehensive (loss) income before reclassifications and tax impact	(143.4 )	17.8	6.2	(6.9 )	—	(126.3 )
Tax impact	(7.8 )	(2.4 )	(1.8 )	2.1	—	(9.9 )
Other comprehensive (loss) income, net of tax, before reclassifications	(151.2 )	15.4	4.4	(4.8 )	—	(136.2 )
Amounts reclassified from accumulated other comprehensive (loss) income	—	(10.8 )	—	(3.7 )	4.3	(10.2 )
Net (decrease) increase in other comprehensive income	(151.2 )	4.6	4.4	(8.5 )	4.3	(146.4 )
Balance at September 30, 2015	\$ (363.7 )	\$ (6.2 )	\$ (108.3 )	\$ —	\$ (109.3)	\$ (587.5)



Reclassifications out of accumulated other comprehensive income (expense) to the Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015:  
(in millions)

Details about AOCI Components	Amounts Reclassified from AOCI Three Months Ended		Affected Line Item in the Consolidated Statements of Operations
	2016	2015	
Gain (loss) on derivative financial instruments:			
Interest rate swaps	\$(0.4)	\$(1.1)	Interest expense
Foreign exchange forward contracts	—	3.8	Cost of products sold
Foreign exchange forward contracts	—	0.1	SG&A expenses
Commodity contracts	—	—	Cost of products sold
Net gain before tax	(0.4 )	2.8	
Tax impact	0.1	(0.2 )	Provision (benefit) for income taxes
Net (loss) gain after tax	\$(0.3)	\$2.6	
Net unrealized holding gain (loss) on available-for-sale securities:			
Available-for-sale securities	\$—	\$5.1	Other expense (income), net
Tax impact	—	(1.4 )	Provision (benefit) for income taxes
Net loss after tax	\$—	\$3.7	
Amortization of defined benefit pension and other postemployment benefit items:			
Amortization of net actuarial losses	\$(1.4)	\$(2.0)	(a)
Net loss before tax	(1.4 )	(2.0 )	
Tax impact	0.5	0.6	Provision (benefit) for income taxes
Net loss after tax	\$(0.9)	\$(1.4)	
Total reclassifications for the period	\$(1.2)	\$4.9	

(a) These accumulated other comprehensive income components are included in the computation of net periodic benefit cost for the three months ended September 30, 2016 and 2015 (see Note 8, Benefit Plans, for additional details).

(in millions)

Details about AOCI Components	Amounts Reclassified from AOCI Nine Months Ended		Affected Line Item in the Consolidated Statements of Operations
	2016	2015	

## Gain (loss) on derivative financial instruments:

Interest rate swaps	\$(2.4)	\$(3.1 )	Interest expense
Foreign exchange forward contracts	5.2	14.5	Cost of products sold
Foreign exchange forward contracts	0.1	0.5	SG&A expenses
Commodity contracts	(0.1 )	(0.3 )	Cost of products sold
Net gain before tax	2.8	11.6	
Tax impact	(0.3 )	(0.8 )	Provision (benefit) for income taxes
Net gain after tax	\$2.5	\$10.8	

## Net unrealized holding gain (loss) on available-for-sale securities:

Available-for-sale securities	\$—	\$5.1	Other expense (income), net
Tax impact	—	(1.4 )	Provision (benefit) for income taxes
Net loss after tax	\$—	\$3.7	

## Amortization of defined benefit pension and other postemployment benefit items:

Amortization of prior service benefits	\$0.1	\$0.1	(a)
Amortization of net actuarial losses	(4.0 )	(6.1 )	(a)
Net loss before tax	(3.9 )	(6.0 )	
Tax impact	1.2	1.7	Provision (benefit) for income taxes
Net loss after tax	\$(2.7)	\$(4.3 )	

Total reclassifications for the period \$(0.2) \$10.2

(a) These accumulated other comprehensive income components are included in the computation of net periodic benefit cost for the nine months ended September 30, 2016 and 2015 (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 and nine months ended September 30, 2016 and 2015:

Basic Earnings Per Common Share Computation (in millions, except per share amounts)	Three Months Ended		Nine Months Ended	
	2016	2015	2016	2015
Net income attributable to Dentsply Sirona	\$ 92.5	\$ 84.5	\$322.9	\$192.6
Weighted average common shares outstanding	232.6	139.8	213.8	140.0
Earnings per common share - basic	\$ 0.40	\$ 0.60	\$1.51	\$1.38
Diluted Earnings Per Common Share Computation (in millions, except per share amounts)				
Net income attributable to Dentsply Sirona	\$ 92.5	\$ 84.5	\$322.9	\$192.6
Weighted average common shares outstanding	232.6	139.8	213.8	140.0
Incremental weighted average shares from assumed exercise of dilutive options from stock-based compensation awards	3.7	2.6	3.6	2.5
Total weighted average diluted shares outstanding	236.3	142.4	217.4	142.5
Earnings per common share - diluted	\$ 0.39	\$ 0.59	\$1.48	\$1.35

The calculation of weighted average diluted common shares outstanding excludes stock options and RSUs of 0.5 million and 0.7 million shares of common stock that were outstanding during the three and nine months ended September 30, 2016, respectively, because their effect would be antidilutive. There were 0.8 million and 1.0 million antidilutive shares of common stock outstanding during the three and nine months ended September 30, 2015, respectively.

On February 29, 2016, in conjunction with the merger, the Company increased the authorized number of common shares to 400.0 million. On September 21, 2016, the Company's Board of Directors increased the authorized number of shares that can be held in Treasury by 5.0 million to 39.0 million.

## NOTE 5 – BUSINESS COMBINATIONS

On February 29, 2016, DENTSPLY merged with Sirona in an all-stock transaction and the registrant was renamed DENTSPLY SIRONA Inc. In connection with the merger, each former share of Sirona common stock issued and outstanding immediately prior to February 29, 2016, was converted to 1.8142 shares of DENTSPLY common stock. The Company issued approximately 101.8 million shares of DENTSPLY common stock to former shareholders of Sirona common stock, representing approximately 42% of the approximately 242.2 million total shares of DENTSPLY common stock outstanding on the merger date.

DENTSPLY was determined to be the accounting acquirer. In this all-stock transaction, only DENTSPLY common stock was transferred and DENTSPLY shareholders received approximately 58% of the voting interest of the combined company, and the Sirona shareholders received approximately 42% of the voting interest. Additional indicators included the combined company's eleven Board of Directors which includes six members of the former

DENTSPLY board, and five members of the former Sirona board, as well as DENTSPLY's financial size.

The Company changed its name to DENTSPLY SIRONA Inc. and the common stock continues to trade on the NASDAQ under the ticker "XRAY".

The merger combines leading platforms in consumables, equipment, and technologies which creates complimentary end to end solutions to meet customer needs and improve patient care. The combined company is positioned to capitalize on key industry trends to drive growth, including accelerating adoption of digital dentistry.



The following table summarizes the consideration transferred:  
(in millions, except per share amount)\*

Sirona common shares outstanding at February 29, 2016	56.1
Exchange ratio	1.8142
DENTSPLY common stock issued for consideration	101.8
DENTSPLY common stock per share price at February 26, 2016	\$60.67
Fair value of DENTSPLY common stock issued to Sirona shareholders	\$6,173.8
Fair value of vested portion of Sirona share-based awards outstanding - 1.5 million at February 29, 2016	82.4
Total acquisition consideration	\$6,256.2

\*Table may not foot due to rounding

The merger was recorded in accordance with US GAAP pursuant to the provisions of ASC Topic 805, Business Combinations. The Company has performed a preliminary valuation analysis of identifiable assets acquired and liabilities assumed and allocated the consideration based on the preliminary fair values of those identifiable assets acquired and liabilities assumed, but there may be material changes as the valuation is finalized. In addition, completion of the valuation may impact the assessment of the net deferred tax liability currently recognized with any adjustment resulting in a corresponding change to goodwill. The amount of these potential adjustments could be significant.

The following table summarizes the preliminary fair value of identifiable assets acquired and liabilities assumed at the date of the merger:  
(in millions)

Cash and cash equivalents	\$522.3
Trade receivables	143.0
Inventory	220.7
Prepaid expenses and other current assets	111.6
Property, plant and equipment	237.1
Identifiable intangible assets	2,435.0
Goodwill	3,762.9
Other long-term assets	10.9
Total assets	7,443.5
Accounts payable	68.0
Other current liabilities	191.3
Debt	57.5
Deferred income taxes	766.9
Other long-term liabilities	93.4
Total liabilities	1,177.1
Noncontrolling interest	10.2
Total identifiable net assets	\$6,256.2

Inventory held by Sirona included a fair value adjustment of \$72.0 million. The Company expensed this amount through June 30, 2016 as the acquired inventory was sold.

Property, plant and equipment includes a fair value adjustment of \$33.6 million, and consists of land, buildings, plant and equipment. Depreciable lives range from 25 to 50 years for buildings and from 3 to 10 years for plant and

equipment.

Deferred income for service contracts previously recorded by Sirona now includes a fair value adjustment which reduced Other current liabilities by \$17.3 million. The consequence is that this amount cannot be recognized as revenue under US GAAP.

15

---

Weighted average useful lives for intangible assets were determined based upon the useful economic lives of the intangible assets that are expected to contribute to future cash flows. The acquired definite-lived intangible assets are being amortized on a straight-line basis over their expected useful lives. Intangible assets acquired consist of the following:

(in millions, except for useful life)	Weighted Average Useful Life	
	Amount	(in years)
Customer relationships	\$495.0	14
Developed technology and patents	1,035.0	12
Trade names and trademarks	905.0	Indefinite
Total	\$2,435.0	

The fair values assigned to intangible assets were determined through the use of the income approach, specifically the relief from royalty method was used to fair value the developed technology and patents and tradenames and trademarks and the multi-period excess earnings method was used to fair value customer relationships. Both valuation methods rely on management's judgments, including expected future cash flows resulting from existing customer relationships, customer attrition rates, contributory effects of other assets utilized in the business, peer group cost of capital and royalty rates as well as other factors. The valuation of tangible assets was derived using a combination of the income approach, the market approach and the cost approach. Significant judgments used in valuing tangible assets include estimated reproduction or replacement cost, weighted average useful lives of assets, estimated selling prices, costs to complete and reasonable profit.

The \$3,762.9 million of goodwill is attributable to the excess of the purchase price over the fair value of the net tangible and intangible assets acquired and liabilities assumed. Goodwill is considered to represent the value associated with workforce and synergies the two companies anticipate realizing as a combined company. Goodwill of \$3,650.0 million has been assigned to the Company's Technologies segment and \$112.9 million has been assigned to the Company's Dental and Healthcare Consumables segment. The goodwill is not expected to be deductible for tax purposes.

Sirona contributed net sales of \$735.2 million and operating income of \$162.4 million to the Company's Consolidated Statements of Operations during the period from February 29, 2016 to September 30, 2016 and is primarily included in the Technologies segment.

The following unaudited pro forma financial information reflects the consolidated results of operations of the Company had the merger occurred on January 1, 2015. Sirona's financial information has been compiled in a manner consistent with the accounting policies adopted by DENTSPLY. The following unaudited pro forma financial information for the three and nine months ended September 30, 2016 and 2015, has been prepared for comparative purposes and does not purport to be indicative of what would have occurred had the merger occurred on January 1, 2015, nor are they indicative of any future results.

(in millions, except per share amount)	Pro forma - unaudited			
	Three Months Ended		Nine Months Ended	
	2016	2015	2016	2015
Net sales	\$955.8	\$951.7	\$2,917.9	\$2,856.7
Net income attributable to Dentsply Sirona	\$94.0	\$116.2	\$328.9	\$292.1
Diluted earnings per common share	\$0.40	\$0.47	\$1.39	\$1.19

The pro forma financial information is based on the Company's preliminary assignment of consideration given and therefore subject to adjustment. These pro forma amounts were calculated after applying the Company's accounting policies and adjusting Sirona's results to reflect adjustments that are directly attributable to the merger. These adjustments mainly include additional intangible asset amortization, depreciation, inventory fair value adjustments, transaction costs and taxes that would have been charged assuming the fair value adjustments had been applied from January 1, 2015, together with the consequential tax effects at the statutory rate. Pro forma results do not include any anticipated synergies or other benefits of the merger.

For the nine months ended September 30, 2016, in connection with the merger, the Company has incurred \$29.0 million of transaction related costs, primarily amounts paid to third party advisers, legal and banking fees, which are included in Selling, general and administrative expenses in the Consolidated Statements of Operations.

In September 2016, the Company finalized the acquisitions of MIS Implants Technologies Ltd., a dental implant systems manufacturer headquartered in northern Israel and a small acquisition of a healthcare consumable business. Total purchase price related to these two acquisitions was \$341.4 million, net of cash acquired of \$61.4 million, subject to final purchase price adjustments. At September 30, 2016, the Company recorded a preliminary estimate of \$234.1 million in goodwill related to the difference between the fair value of assets acquired and liabilities assumed and the consideration given for the acquisitions. Intangible assets acquired consist of the following:

(in millions, except for useful life)	Weighted Average Useful Life	
	Amount	(in years)
Customer relationships	\$ 61.9	15
Developed technology and patents	32.1	15
Trade names and trademarks	25.3	Indefinite
Total	\$ 119.3	

The results of operations for these businesses have been included in the accompanying financial statements as of the effective date of the respective transactions. The purchase prices have been assigned on the basis of preliminary estimates of the fair values of assets acquired and liabilities assumed. These transactions were not material to the Company's net sales and net income attributable to Dentsply Sirona for the three and nine months ended September 30, 2016.

#### NOTE 6 – SEGMENT INFORMATION

The Company has numerous operating businesses covering a wide range of dental consumable products, dental technology products and certain healthcare products primarily serving the professional dental market. Professional dental products represented approximately 92% of net sales for the three and nine months ended September 30, 2016 and 88% of net sales for the three and nine months ended September 30, 2015.

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 accounting policies of the segments are consistent with those described in DENTSPLY's most recently filed Form 10-K, in the summary of significant accounting policies.

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. 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 reportable segments is provided below.

During the March 31, 2016 quarter, the Company realigned reporting responsibilities as a result of the merger and changed the management structure. The segment information below reflects the revised structure for all periods shown.

#### Dental and Healthcare Consumables

This segment includes responsibility for the worldwide design, manufacture, sales and distribution of the Company's preventive, restorative, instruments, endodontic, and laboratory dental products, as well as consumable medical device products.

## Technologies

This segment is responsible for the worldwide design, manufacture, sales and distribution of the Company's dental implants, CAD/CAM systems, imaging systems, treatment centers and orthodontic products.

The following tables set forth information about the Company's segments for the three and nine months ended September 30, 2016 and 2015:

## Third Party Net Sales

(in millions)	Three Months Ended		Nine Months Ended	
	2016	2015	2016	2015
Dental and Healthcare Consumables	\$ 512.1	\$ 484.1	\$ 1,544.8	\$ 1,475.1
Technologies	442.1	164.8	1,204.0	528.1
Total net sales	\$ 954.2	\$ 648.9	\$ 2,748.8	\$ 2,003.2

## Third Party Net Sales, Excluding Precious Metal Content

(in millions)	Three Months Ended		Nine Months Ended	
	2016	2015	2016	2015
Dental and Healthcare Consumables	\$ 497.2	\$ 464.7	\$ 1,494.7	\$ 1,408.0
Technologies	442.0	164.6	1,203.7	527.6
Total net sales, excluding precious metal content	939.2	629.3	2,698.4	1,935.6
Precious metal content of sales	15.0	19.6	50.4	67.6
Total net sales, including precious metal content	\$ 954.2	\$ 648.9	\$ 2,748.8	\$ 2,003.2

## Inter-segment Net Sales

(in millions)	Three Months Ended		Nine Months Ended	
	2016	2015	2016	2015
Dental and Healthcare Consumables	\$ 58.6	\$ 47.9	\$ 173.2	\$ 156.2
Technologies	1.2	1.8	4.7	5.2
All Other (a)	59.1	51.8	178.4	161.5
Eliminations	(118.9 )	(101.5 )	(356.3 )	(322.9 )
Total	\$ —	\$ —	\$ —	\$ —

(a) Includes amounts recorded at one distribution warehouse not managed by named segments.

## Segment Adjusted Operating Income

(in millions)	Three Months Ended		Nine Months Ended	
	2016	2015	2016	2015
Dental and Healthcare Consumables	\$ 134.3	\$ 122.8	\$416.7	\$361.9
Technologies	89.8	19.5	255.7	62.2
Segment adjusted operating income before income taxes and interest	224.1	142.3	672.4	424.1
Reconciling items (income) expense:				
All Other (b)	43.8	25.8	222.8	56.9
Restructuring and other costs	7.9	6.6	15.6	50.9
Interest expense	8.4	9.6	26.9	30.1
Interest income	(0.5 )	(0.4 )	(1.4 )	(1.8 )
Other expense (income), net	1.6	(3.8 )	(13.3 )	(3.6 )
Amortization of intangible assets	44.4	10.9	110.0	32.8
Depreciation resulting from the fair value step-up of property, plant and equipment from business combinations	1.4	0.4	3.5	1.4
Income before income taxes	\$ 117.1	\$ 93.2	\$308.3	\$257.4

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

## Assets

(in millions)	September 30, 2016	December 31, 2015
Dental and Healthcare Consumables	\$ 2,197.0	\$ 1,776.5
Technologies	7,175.8	951.2
All Other (c)	2,579.6	1,675.2
Total	\$ 11,952.4	\$ 4,402.9

(c) Includes the assets of Corporate headquarters, inter-segment eliminations and one distribution warehouse not managed by named segments.

For the three and nine months ended September 30, 2016, two customers accounted for 23% and 25%, respectively, of consolidated net sales for the period. At September 30, 2016, two customers accounted for 28% of the consolidated accounts receivable balance.

## NOTE 7 – INVENTORIES

Inventories are stated at the lower of cost or market. The cost of inventories determined by the last-in, first-out (“LIFO”) method at September 30, 2016 and December 31, 2015 were \$8.5 million and \$8.1 million, respectively. The cost of other 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 September 30, 2016 and December 31, 2015 by \$6.7 million and \$6.6 million, respectively.





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

(in millions)	September 30, December 31,	
	2016	2015
Finished goods	\$ 338.8	\$ 218.2
Work-in-process	85.3	52.3
Raw materials and supplies	132.3	69.9
Inventories, net	\$ 556.4	\$ 340.4

The inventory valuation reserves were \$42.7 million and \$36.3 million at September 30, 2016 and December 31, 2015, respectively.

#### NOTE 8 – BENEFIT PLANS

The following sets forth the components of net periodic benefit cost of the Company's defined benefit plans and for the Company's other postemployment benefit plans for the three and nine months ended September 30, 2016 and 2015:

Defined Benefit Plans (in millions)	Three Months Ended		Nine Months Ended	
	2016	2015	2016	2015
Service cost	\$3.8	\$4.3	\$11.5	\$13.0
Interest cost	2.0	1.8	5.8	5.5
Expected return on plan assets	(1.2 )	(1.3 )	(3.6 )	(4.1 )
Amortization of prior service credit	—	—	(0.1 )	(0.1 )
Amortization of net actuarial loss	1.3	1.9	3.8	5.9
Curtailed and settlement loss	1.2	—	1.2	—
Net periodic benefit cost	\$7.1	\$6.7	\$18.6	\$20.2

Other Postemployment Benefit Plans (in millions)	Three Months Ended		Nine Months Ended	
	2016	2015	2016	2015
Service cost	\$ —	\$ 0.1	\$0.2	\$0.3
Interest cost	0.1	0.1	0.4	0.5
Amortization of net actuarial loss	0.1	0.1	0.2	0.1
Net periodic benefit cost	\$ 0.2	\$ 0.3	\$0.8	\$0.9

The following sets forth the information related to the contributions to the Company's benefit plans for 2016:

(in millions)	Pension Benefits	Other Postemployment Benefits
Actual contributions through September 30, 2016	\$ 10.6	\$ 0.1
Projected contributions for the remainder of the year	4.2	0.6
Total projected contributions	\$ 14.8	\$ 0.7

The Company predominantly uses liability durations in establishing its discount rates, which are observed from indices of high-grade corporate bond yield curves in the respective economic regions of the plan. During the first quarter of 2016, the Company changed the method utilized to estimate the service cost and interest cost components of net periodic benefit costs for the Company's major defined benefit pension plans in Germany, Switzerland and for all defined benefit pension and other postemployment healthcare plans in the United States. Historically, the Company estimated the service cost and interest cost components using a single weighted average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. The Company has elected to use a spot rate approach for the estimation of these components of benefit cost by applying the specific spot rates along the yield curve to the relevant projected cash flows, as the Company believes this provides a better estimate of service and interest costs. The Company considers this a change in estimate and, accordingly, started to account for it prospectively in the quarter ended March 31, 2016. This change does not affect the measurement of the Company's total benefit obligation.



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

	December 31, 2015		Applied	Change in Estimates	September 30, 2016
Dental and Healthcare Consumables	\$ 35.7	\$ 12.9	\$(19.3 )	\$( 2.8 )	\$ 26.5
Technologies	4.3	3.3	(3.4 )	(0.4 )	3.8
All Other	1.1	1.0	(0.8 )	(0.4 )	0.9
Total	\$ 41.1	\$ 17.2	\$(23.5 )	\$( 3.6 )	\$ 31.2

21

---

In October 2016, the Company announced that it is proposing plans in Germany to reorganize and combine portions of its manufacturing, logistics and distribution networks within both of the Company's segments. As required under German law, the Company has entered into a statutory co-determination process under which it will collaborate with the appropriate labor groups to jointly define the infrastructure and staffing adjustments necessary to support this initiative. The Company also initiated similar actions in other regions of the world. The Company estimates the cost of these initiatives to range up to \$85 million, primarily for severance related benefits for employees, which is expected to be incurred as actions are implemented over the next two years.

## 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, interest rates and commodity prices. 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 and to convert fixed rate debt to variable rate debt, cross currency basis swaps to convert debt denominated in one currency to another currency and commodity swaps to fix certain variable raw material costs.

### Derivative Instruments Designated as Hedging

#### Cash Flow Hedges

The following table summarizes the notional amounts of cash flow hedges by derivative instrument type at September 30, 2016 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 Notional Amount	Aggregate Notional Amount Maturing within 12 Months
Foreign exchange forward contracts	\$ 261.9	\$ 194.9
Interest rate swaps	123.8	—
Commodity contracts	0.2	0.2
Total derivative instruments designated as cash flow hedges	\$ 385.9	\$ 195.1

### 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 tested 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 in 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 in 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 in the Consolidated Statements of Cash Flows. The Company hedges various currencies, with the most significant activity occurring in euros, Swedish kronor, Canadian dollars, and Swiss francs.

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 September 30, 2016, 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. Another exposure hedged with derivative contracts had a notional amount of 65.0 million Swiss francs, and effectively converted the underlying variable interest rate of a Swiss franc denominated loan to a fixed interest rate of 1.8% for a term of five years, that matured in September 2016.

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 in the Consolidated Statements of Cash Flows.

## Commodity Risk Management

The Company enters into precious metal commodity swap contracts to effectively fix certain variable raw material costs typically for up to 18 months. These swaps are used to stabilize the cost of components used in the production of certain products. The Company generally accounts for the commodity swaps as cash flow hedges. As a result, the Company records the fair value of the contracts primarily through AOCI based on the tested effectiveness of the commodity swaps. 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 in 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 Interest expense in 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 in the Consolidated Statements of Cash Flows.

The following tables summarize the amount of gains (losses) recorded in AOCI in the Consolidated Balance Sheets and income (expense) in the Company's Consolidated Statements of Operations related to all cash flow hedges for the three months ended September 30, 2016 and 2015:

For the three months ended September 30, 2016

(in millions)	Gain (Loss) in AOCI	Consolidated Statements of Operations in Location	Effective Portion Reclassified from AOCI into Income (Expense)	Ineffective Portion Recognized in Income (Expense)
<b>Effective Portion:</b>				
Interest rate swaps	\$0.6	Interest expense	\$ (0.4 )	\$ —
Foreign exchange forward contracts	(2.6 )	Cost of products sold	—	—
Commodity contracts	(0.1 )	Cost of products sold	—	—
<b>Ineffective Portion:</b>				
Foreign exchange forward contracts	—	Other expense (income), net	—	(0.5 )



Total in cash flow hedging	\$(2.1)	\$ (0.4 )	\$ (0.5 )
----------------------------	---------	-----------	-----------

For the three months ended September 30, 2015

(in millions)	Gain (Loss) in AOCI	Consolidated Statements of Operations in Location	Effective Portion Reclassified from AOCI into Income (Expense)	Ineffective Portion Recognized in Income (Expense)
<b>Effective Portion:</b>				
Interest rate swaps	\$(0.1)	Interest expense	\$ (1.1 )	\$ —
Foreign exchange forward contracts	(2.9 )	Cost of products sold	3.8	—
Foreign exchange forward contracts	—	SG&A expenses	0.1	—
Commodity contracts	(0.2 )	Cost of products sold	—	—
<b>Ineffective Portion:</b>				
Foreign exchange forward contracts	—	Other expense (income), net	—	(0.5 )
<b>Total for cash flow hedging</b>	<b>\$(3.2)</b>		<b>\$ 2.8</b>	<b>\$ (0.5 )</b>

The following tables summarize the amount of gains (losses) recorded in AOCI in the Consolidated Balance Sheets and income (expense) in the Company's Consolidated Statements of Operations related to all cash flow hedges for the nine months ended September 30, 2016 and 2015:

For the nine months ended September 30, 2016

(in millions)	Gain (Loss) in AOCI	Consolidated Statements of Operations in Location	Effective Portion Reclassified from AOCI into Income (Expense)	Ineffective Portion Recognized in Income (Expense)
<b>Effective Portion:</b>				
Interest rate swaps	\$(0.9)	Interest expense	\$ (2.4 )	\$ —
Foreign exchange forward contracts	(5.7 )	Cost of products sold	5.2	—
Foreign exchange forward contracts	(0.2 )	SG&A expenses	0.1	—
Commodity contracts	0.1	Cost of products sold	(0.1 )	—
<b>Ineffective Portion:</b>				
	—	Other expense (income), net	—	(0.3 )

Foreign exchange forward  
contracts

Total in cash flow hedging	\$ (6.7)	\$ 2.8	\$ (0.3 )
----------------------------	----------	--------	-----------

24

---

For the nine months ended September 30, 2015

(in millions)	Gain (Loss) in AOCI	Consolidated Statements of Operations Location	Effective Portion Reclassified from AOCI into Income (Expense)	Ineffective Portion Recognized in Income (Expense)
<b>Effective Portion:</b>				
Interest rate swaps	\$ (1.4 )	Interest expense	\$ (3.1 )	\$ —
Foreign exchange forward contracts	19.1	Cost of products sold	14.5	—
Foreign exchange forward contracts	0.3	SG&A expenses	0.5	—
Commodity contracts	(0.2 )	Cost of products sold	(0.3 )	—
<b>Ineffective Portion:</b>				
Foreign exchange forward contracts	—	Other expense (income), net	—	(0.3 )
Total for cash flow hedging	\$ 17.8		\$ 11.6	\$ (0.3 )

Overall, the derivatives designated as cash flow hedges are considered to be highly effective. At September 30, 2016, the Company expects to reclassify \$2.8 million of deferred net losses on cash flow hedges recorded in AOCI to the Consolidated Statements of Operations during the next 12 months. This reclassification is primarily due to the sale of inventory that includes hedged purchases and recognized interest expense on interest rate swaps. 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. 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 in 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 in the Consolidated Statements of Cash Flows.

The following table summarizes the notional amounts of hedges of net investments by derivative instrument type at September 30, 2016 and the notional amounts expected to mature during the next 12 months:

Aggregate

(in millions)	Notional Amount	Aggregate Notional Amount Maturing within 12 Months
Foreign exchange forward contracts	\$ 208.2	\$ 208.2

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 in the Consolidated Balance Sheets and other income (expense) in the Company's Consolidated Statements of Operations related to the hedges of net investments for the three months ended September 30, 2016 and 2015:

For the three months ended September 30, 2016

(in millions)	Gain (Loss) in AOCI	Consolidated Statements of Operations Location	Recognized in Income (Expense)
---------------	------------------------------	--	--------------------------------------

Effective Portion:

Foreign exchange forward contracts	\$(4.4)	Other expense (income), net	\$ 1.2
Total for net investment hedging	\$(4.4)		\$ 1.2

For the three months ended September 30, 2015

(in millions)	Gain (Loss) in AOCI	Consolidated Statements of Operations Location	Recognized in Income (Expense)
---------------	------------------------------	--	--------------------------------------

Effective Portion:

Foreign exchange forward contracts	\$ 9.5	Other expense (income), net	\$ 2.0
Total for net investment hedging	\$ 9.5		\$ 2.0

The following tables summarize the amount of gains (losses) recorded in AOCI in the Consolidated Balance Sheets and other income (expense) in the Company's Consolidated Statements of Operations related to the hedges of net investments for the nine months ended September 30, 2016 and 2015:

For the nine months ended September 30, 2016

(in millions)	Gain (Loss) in AOCI	Consolidated Statements of Operations Location	Recognized in Income (Expense)
---------------	------------------------------	--	--------------------------------------

Effective Portion:

Foreign exchange forward contracts	\$(21.6)	Other expense (income), net	\$ 5.9
Total for net investment hedging	\$(21.6)		\$ 5.9

For the nine months ended September 30, 2015

(in millions)	Gain (Loss) in AOCI	Consolidated Statements of Operations Location	Recognized in Income (Expense)
---------------	------------------------------	--	--------------------------------------

Effective Portion:

Foreign exchange forward contracts	\$ 6.1	Other expense (income), net	\$ 2.8
Total for net investment hedging	\$ 6.1		\$ 2.8

#### Fair Value Hedges

The Company used interest rate swaps to convert a portion of its fixed interest rate debt to variable interest rate debt. The Company had U.S. dollar denominated interest rate swaps with an initial total notional value of \$150.0 million to effectively convert the underlying fixed interest rate of 4.1% on the Company's \$250.0 million Private Placement

Notes (“PPN”) to variable rate, the debt and interest rate swap matured in February 2016. The notional value of the swaps declined proportionately as portions of the PPN matured. These interest rate swaps were designated as fair value hedges of the interest rate risk associated with the hedged portion of the fixed rate PPN. Accordingly, the Company carried the portion of the hedged debt at fair value, with the change in debt and swaps offsetting each other in the Consolidated Statements of Operations. Any cash flows associated with these instruments were included in operating activities in the Consolidated Statements of Cash Flows.

The following tables summarize the amount of income (expense) recorded in the Company's Consolidated Statements of Operations related to the hedges of fair value for the three and nine months ended September 30, 2016 and 2015:

(in millions)	Consolidated Statements of Operations Location	Three	Nine
		Months Ended 2016	Months Ended 2015
Interest rate swaps	Interest expense	\$-\$0.1	\$-\$0.2

#### 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 in 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 in 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 in 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 in 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 September 30, 2016 and the notional amounts expected to mature during the next 12 months:

(in millions)	Aggregate Notional Amount	Aggregate Notional Amount Maturing within 12 Months
Foreign exchange forward contracts	\$ 629.2	\$ 513.5
Interest rate swaps	1.2	0.8
Total for instruments not designated as hedges	\$ 630.4	\$ 514.3

The following table summarizes the amounts of gains (losses) recorded in the Company's Consolidated Statements of Operations related to the economic hedges not designated as hedging for the three and nine months ended September 30, 2016 and 2015:

(in millions)	Consolidated Statements of Operations Location	Gain (Loss) Recognized	
		Three Months Ended 2016	Three Months Ended 2015
Foreign exchange forward contracts (a)	Other expense (income), net	\$(4.7)	\$(4.1)
Total for instruments not designated as hedges		\$(4.7)	\$(4.1)



(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 in the Consolidated Statements of Operations.

(in millions)	Consolidated Statements of Operations Location	Gain (Loss) Recognized		
		Nine Months Ended	2016	2015
Foreign exchange forward contracts (a)	Other expense (income), net	\$(12.2)	\$3.7	
DIO equity option contracts	Other expense (income), net	—	0.1	
Cross currency basis swaps (a)	Other expense (income), net	—	(1.8)	
Total for instruments not designated as hedges		\$(12.2)	\$2.0	

(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 in the Consolidated Statements of Operations.

During March 2016, the Company established hedges totaling 316.5 million euros to offset a euro denominated intercompany note receivable at a U.S. dollar functional entity. The change in the value of the hedges resulted in a \$12.1 million loss, which were offset by the changes in the value of the euro denominated intercompany note receivable at a U.S. dollar functional entity.

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

The following tables summarize the fair value and the location of the Company's derivatives in the Consolidated Balance Sheets at September 30, 2016 and December 31, 2015:

(in millions)	September 30, 2016			
	Prepaid Expenses and Other Current Assets, Net	Other Noncurrent Assets, Net	Accrued Liabilities	Other Noncurrent Liabilities
Designated as Hedges				
Foreign exchange forward contracts	\$6.1	\$ 0.2	\$ 3.0	\$ 0.5
Interest rate swaps	—	—	0.3	1.0
Total	\$6.1	\$ 0.2	\$ 3.3	\$ 1.5

#### Not Designated as Hedges

Foreign exchange forward contracts	\$4.4	\$ —	\$ 2.1	\$ —
Total	\$4.4	\$ —	\$ 2.1	\$ —

(in millions)	December 31, 2015			
	Prepaid Expenses and Other Current Assets, Net	Other Noncurrent Assets, Net	Accrued Liabilities	Other Noncurrent Liabilities
Designated as Hedges				
Foreign exchange forward contracts	\$23.0	\$ 7.9	\$ 6.9	\$ 0.4
Commodity contracts	—	—	0.1	—
Interest rate swaps	0.1	—	1.0	0.2
Total	\$23.1	\$ 7.9	\$ 8.0	\$ 0.6

#### Not Designated as Hedges

Foreign exchange forward contracts	\$5.0	\$ —	\$ 3.0	\$ —
Total	\$5.0	\$ —	\$ 3.0	\$ —

#### 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 in the Consolidated Balance Sheets.

Offsetting of financial assets and liabilities under netting arrangements at September 30, 2016:

28

---

(in millions)	Gross Amounts Recognized	Gross Amount Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Received/Pledged	Net Amount
<b>Assets</b>						
Foreign exchange forward contracts	\$ 10.7	\$ —	\$ 10.7	\$ (5.3 )	\$ —	\$ 5.4
Total Assets	\$ 10.7	\$ —	\$ 10.7	\$ (5.3 )	\$ —	\$ 5.4

(in millions)	Gross Amounts Recognized	Gross Amount Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Received/Pledged	Net Amount
<b>Liabilities</b>						
Foreign exchange forward contracts	\$ 5.6	\$ —	\$ 5.6	\$ (4.7 )	\$ —	\$ 0.9
Interest rate swaps	1.3	—	1.3	(0.6 )	—	0.7
Total Liabilities	\$ 6.9	\$ —	\$ 6.9	\$ (5.3 )	\$ —	\$ 1.6

Offsetting of financial assets and liabilities under netting arrangements at December 31, 2015:

(in millions)	Gross Amounts Recognized	Gross Amount Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Received/Pledged	Net Amount
<b>Assets</b>						
Foreign exchange forward contracts	\$ 35.9	\$ —	\$ 35.9	\$ (7.4 )	\$ —	\$ 28.5
Interest rate swaps	0.1	—	0.1	—	—	0.1
Total Assets	\$ 36.0	\$ —	\$ 36.0	\$ (7.4 )	\$ —	\$ 28.6

(in millions)	Gross Amounts Recognized	Gross Amounts Not Offset in the Consolidated Balance Sheets				
		Gross Amount Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Financial Instruments	Cash Collateral Received/Pledged	Net Amount
<b>Liabilities</b>						
Foreign exchange forward contracts	\$ 10.3	\$ —	—\$ 10.3	\$ (6.3 )	\$ —	— \$ 4.0
Commodity contracts	0.1	—	0.1	—	—	0.1
Interest rate swaps	1.2	—	1.2	(1.1 )	—	0.1
<b>Total Liabilities</b>	<b>\$ 11.6</b>	<b>\$ —</b>	<b>—\$ 11.6</b>	<b>\$ (7.4 )</b>	<b>\$ —</b>	<b>— \$ 4.2</b>

#### 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 in 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.

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 and carrying value of total long-term debt, including the current portion, was \$1,593.0 million and \$1,579.7 million, respectively at September 30, 2016. At December 31, 2015, the Company estimated the fair value and carrying value, including the current portion, was \$1,160.7 million and \$1,150.2 million, respectively. The interest rates on variable rate term loan debt and commercial paper are consistent with current market conditions, therefore the fair value of these instruments approximates their carrying values.

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 September 30, 2016 and December 31, 2015, which are classified as Cash and cash equivalents, Prepaid expenses and other current assets, net, Other noncurrent assets, net, Accrued liabilities, and Other noncurrent liabilities in the Consolidated Balance Sheets. 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.

(in millions)	September 30, 2016			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Foreign exchange forward contracts	\$ 10.7	\$ —	—\$ 10.7	\$ —
<b>Total assets</b>	<b>\$ 10.7</b>	<b>\$ —</b>	<b>—\$ 10.7</b>	<b>\$ —</b>

## Liabilities

Interest rate swaps	\$1.3	\$	—\$ 1.3	\$	—
Foreign exchange forward contracts	5.6	—	5.6	—	
Contingent considerations on acquisitions	7.8	—	—	7.8	
Total liabilities	\$14.7	\$	—\$ 6.9	\$	7.8

December 31, 2015

(in millions)	Total	Level			
		1	2	3	
<b>Assets</b>					
Interest rate swaps	\$0.1	\$	—\$0.1	\$	—
Foreign exchange forward contracts	35.9	—	35.9	—	
Total assets	\$36.0	\$	—\$36.0	\$	—
<b>Liabilities</b>					
Interest rate swaps	\$1.2	\$	—\$1.2	\$	—
Commodity contracts	0.1	—	0.1	—	
Foreign exchange forward contracts	10.3	—	10.3	—	
Long-term debt	45.1	—	45.1	—	
Total liabilities	\$56.7	\$	—\$56.7	\$	—

Derivative valuations are based on observable inputs to the valuation model including interest rates, foreign currency exchange rates, future commodities prices and credit risks. As discussed in Note 10, Financial Instruments and Derivatives, commodity contracts, certain interest rate swaps and foreign exchange forward contracts are considered cash flow hedges. In addition, certain cross currency basis swaps and foreign exchange forward contracts are considered hedges of net investments in foreign operations.

The Company's Level 3 liabilities are related to earn-out obligations on prior acquisitions that were assumed as part of the merger with Sirona. 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 Obligations
Balance, February 29, 2016	\$ 7.6
Effect of exchange rate changes	0.2
Balance at September 30, 2016	\$ 7.8

For the nine months ended September 30, 2016, 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 first nine months of 2016, the Company recorded a tax benefit from the release of a valuation allowance of approximately \$77.1 million as a result of the merger related to previously unrecognized tax assets on foreign interest deduction carryforwards of a non-U.S. legacy DENTSPLY subsidiary. In addition, for the three months ended September 30, 2016, the Company recorded \$5.1 million of tax expense related to other discrete tax matters, and for the nine months ended September 30, 2016 a total of \$9.6 million of tax expense related to other discrete tax matters.

## NOTE 13 – FINANCING ARRANGEMENTS

On February 19, 2016, the Company issued the following: 11.0 million euros aggregate principal amount bearing interest of 2.05%, Series F Senior Notes due February 19, 2026; 15.0 million euros aggregate principal amount bearing interest of 2.05%, Series G Senior Notes due February 19, 2026; and 45.0 million euros aggregate principal amount bearing interest of 2.45%, Series H Senior Notes due February 19, 2031. Proceeds from the Senior Notes were used to pay the final required payment of \$75.0 million under the \$250.0 million PPN that matured on February 19, 2016.

On March 16, 2016, the Company terminated the Sirona Senior Facilities Agreement and repaid the \$52.5 million Facility A Term Loan that was set to mature November 16, 2016.

Effective June 30, 2016, the Company amended and extended its \$500 million multicurrency revolving credit facility for an additional year through July 23, 2021. In addition, certain non-extending members of the bank group were replaced with existing and new lenders. The Company has access to the full \$500 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.

On August 15, 2016, the Company issued the following: 58.0 million Swiss francs aggregate principal amount bearing interest of 1.01%, Series I Senior Notes due August 15, 2026; 40.0 million euros aggregate principal amount bearing interest of 2.25%, Series J Senior Notes due August 15, 2026; 66.0 million euros aggregate principal amount bearing interest of 2.25%, Series K Senior Notes due August 15, 2026; 140.0 million Swiss francs aggregate principal amount bearing interest of 1.17%, Series L Senior Notes due August 15, 2028; and 65.0 million Swiss francs aggregate principal amount bearing interest of 1.33%, Series M Senior Notes due August 15, 2031. Proceeds from the Senior Notes were used to pay the maturing bond principal of \$300.0 million due August 15, 2016 and to pre-pay Swiss franc 65.0 million final required payment under the term loan that matured on September 1, 2016.

The Company's revolving credit facility, term loans and Senior Notes contain certain affirmative and negative covenants relating to the Company's operations and financial condition. At September 30, 2016, the Company was in compliance with all debt covenants.

At September 30, 2016, there was \$375.0 million in outstanding borrowings under the current \$500.0 million multi-currency revolving credit facility, which has been classified as long-term in the Consolidated Balance Sheets. The borrowings were used to fund acquisitions during the quarter ended September 30, 2016.

At September 30, 2016, the Company had \$174.5 million of borrowing available under lines of credit, including lines available under its short-term arrangements and revolving credit agreement.



On October 27, 2016, the Company executed a new Note Purchase Agreement in a private placement with institutional investors to sell 350.0 million euros aggregate principal amount of senior notes (“Private Placement Notes”) at a weighted average interest rate of 1.40%. The Company issued 87.5 million euros in the following series: 17.5 million euros aggregate principal amount bearing interest of 0.98%, Series N Senior Notes due October 27, 2024; 14.5 million euros aggregate principal amount bearing interest of 1.31%, Series O Senior Notes due October 27, 2027; 3.0 million euros aggregate principal amount bearing interest of 1.31%, Series P Senior Notes due October 27, 2027; 15.5 million euros aggregate principal amount bearing interest of 1.50%, Series Q Senior Notes due October 27, 2029; 2.0 million euros aggregate principal amount bearing interest of 1.50%, Series R Senior Notes due October 27, 2029; 6.5 million euros aggregate principal amount bearing interest of 1.58%, Series S Senior Notes due October 27, 2030; 11.0 million euros aggregate principal amount bearing interest of 1.58%, Series T Senior Notes due October 27, 2030; 10.5 million euros aggregate principal amount bearing interest of 1.65%, Series U Senior Notes due October 27, 2031; and 7.0 million euros aggregate principal amount bearing interest of 1.65%, Series V Senior Notes due October 27, 2031. The Company also issued 262.5 million euros in the following series: 52.5 million euros aggregate principal amount bearing interest of 0.98%, Series A Senior Notes due October 27, 2024; 43.5 million euros aggregate principal amount bearing interest of 1.31%, Series B Senior Notes due October 27, 2027; 9.0 million euros aggregate principal amount bearing interest of 1.31%, Series C Senior Notes due October 27, 2027; 46.5 million euros aggregate principal amount bearing interest of 1.50%, Series D Senior Notes due October 27, 2029; 6.0 million euros aggregate principal amount bearing interest of 1.50%, Series E Senior Notes due October 27, 2029; 19.5 million euros aggregate principal amount bearing interest of 1.58%, Series F Senior Notes due October 27, 2030; 33.0 million euros aggregate principal amount bearing interest of 1.58%, Series G Senior Notes due October 27, 2030; 31.5 million euros aggregate principal amount bearing interest of 1.65%, Series H Senior Notes due October 27, 2031; and 21.0 million euros aggregate principal amount bearing interest of 1.65%, Series I Senior Notes due October 27, 2031. Proceeds from the Senior Notes were used to pay the \$375.0 million drawn under the revolving credit facility.

#### NOTE 14 – GOODWILL AND INTANGIBLE ASSETS

The Company performed the required annual impairment tests of goodwill as of April 30, 2016 on 20 reporting units. As discussed in Note 6, Segment Information, effective in the first quarter of 2016, the Company realigned reporting responsibilities for multiple locations. For any realignment that resulted in reporting unit changes, the Company applied the relative fair value method to determine the reallocation of goodwill of the associated reporting units.

To determine the fair value of the Company’s reporting units, the Company uses a discounted cash flow model with market-based support as its valuation technique to measure the fair value for its reporting units. The discounted cash flow model uses five-year forecasted cash flows plus a terminal value based on a multiple of earnings. In addition, the Company applies gross margin and operating expense assumptions consistent with historical trends. The total cash flows were discounted based on a range between 6.7% to 14.7%, which included assumptions regarding the Company’s weighted-average cost of capital. The Company considered the current market conditions both in the U.S. and globally, when determining its assumptions and reconciled the aggregated fair values of its reporting units to its market capitalization, which included a reasonable control premium based on market conditions. As a result of the annual impairment tests of goodwill, no impairment was identified.

In addition, the Company assessed the annual impairment of indefinite-lived intangible assets as of April 30, 2016, which largely consists of acquired tradenames, in conjunction with the annual impairment tests of goodwill. The performance of the Company’s annual impairment test did not result in any impairment of the Company’s indefinite-lived assets.

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

(in millions)	Dental and Healthcare	Technologies	Total
---------------	--------------------------	--------------	-------

Consumables

Balance at December 31, 2015	\$ 956.6	\$ 1,031.0	\$1,987.6
Merger related additions	112.9	3,650.0	3,762.9
Acquisition related additions	8.4	225.7	234.1
Adjustments of provisional amounts on prior acquisitions	1.6	—	1.6
Effects of exchange rate changes	31.2	39.3	70.5
Balance at September 30, 2016	\$ 1,110.7	\$ 4,946.0	\$6,056.7

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

(in millions)	September 30, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents and developed technology	\$1,252.0	\$ (157.3 )	\$1,094.7	\$164.8	\$ (95.0 )	\$ 69.8
Trademarks	68.7	(39.5 )	29.2	67.0	(36.0 )	31.0
Licensing agreements	34.0	(26.5 )	7.5	33.7	(24.9 )	8.8
Customer relationships	1,024.4	(172.2 )	852.2	437.7	(125.4 )	312.3
Total definite-lived	\$2,379.1	\$ (395.5 )	\$1,983.6	\$703.2	\$ (281.3 )	\$ 421.9
Indefinite-lived Trademarks and In-process R&D	\$1,152.0	\$ —	\$1,152.0	\$178.8	\$ —	\$ 178.8
Total identifiable intangible assets	\$3,531.1	\$ (395.5 )	\$3,135.6	\$882.0	\$ (281.3 )	\$ 600.7

#### NOTE 15 – COMMITMENTS AND CONTINGENCIES

##### Litigation

On June 18, 2004, Marvin Weinstat, DDS and Richard Nathan, DDS filed a class action suit in San Francisco County, California alleging that the Company misrepresented that its Cavitron® ultrasonic scalers are suitable for use in oral surgical procedures. The Complaint seeks a recall of the product and refund of its purchase price to dentists who have purchased it for use in oral surgery. The Court certified the case as a class action in June 2006 with respect to the breach of warranty and unfair business practices claims. The class that was certified is defined as California dental professionals who, at any time during the period beginning June 18, 2000 through September 14, 2012, purchased and used one or more Cavitron® ultrasonic scalers for the performance of oral surgical procedures on their patients, which Cavitrons® were accompanied by Directions for Use that “Indicated” Cavitron® use for “periodontal debridement for all types of periodontal disease.” The case went to trial in September 2013, and on January 22, 2014, the San Francisco Superior Court issued its decision in the Company’s favor, rejecting all of the plaintiffs’ claims. The plaintiffs have appealed the Superior Court’s decision, and the appeal is now pending. The Company is defending against this appeal.

On December 12, 2006, a Complaint was filed by Carole Hildebrand, DDS and Robert Jaffin, DDS in the Eastern District of Pennsylvania (the Plaintiffs subsequently added Dr. Mitchell Goldman as a named class representative). The case was filed by the same law firm that filed the Weinstat case in California. The Complaint asserts putative class action claims on behalf of dentists located in New Jersey and Pennsylvania. The Complaint seeks damages and asserts that the Company’s Cavitron® ultrasonic scaler was negligently designed and sold in breach of contract and warranty arising from misrepresentations about the potential uses of the product because it cannot assure the delivery of potable or sterile water. Following grant of a Company Motion and dismissal of the case for lack of jurisdiction, the plaintiffs filed a second complaint under the name of Dr. Hildebrand’s corporate practice, Center City Periodontists, asserting the same allegations (this case is now proceeding under the name “Center City Periodontists”). The plaintiffs moved to have the case certified as a class action, to which the Company has objected and filed its brief. The Court subsequently granted a Motion filed by the Company and dismissed plaintiffs’ New Jersey Consumer Fraud and negligent design claims, leaving only a breach of express warranty claim, in response to which the Company has filed a Motion for Summary Judgment on the express warranty cause of action, which was denied. The Court held hearings during January, February, and August 2016, on plaintiffs’ class certification motion. The Court has not scheduled further hearings in the matter and the Company is awaiting a ruling on the motion by the Court.

On January 20, 2014, the Company was served with a qui tam complaint filed by two former and one current employee of the Company under the Federal False Claims Act and equivalent state and city laws. The lawsuit was previously under seal in the U.S. District Court for the Eastern District of Pennsylvania. The complaint alleges, among other things, that the Company engaged in various illegal marketing activities, and thereby caused dental and other healthcare professionals to file false claims for reimbursement with Federal and State governments. The relators seek injunctive relief, fines, treble damages, and attorneys' fees and costs. On January 27, 2014, the United States filed with the Court a notice that it had elected not to intervene in the qui tam action at this time. The United States' notice indicated that the named state and city co-plaintiffs had authorized the United States to communicate to the Court that they also had decided not to intervene at this time. These non-intervention decisions do not prevent the qui tam relators from litigating this action, and the United States and/or the named states and/or cities may seek to

intervene in the action at a later time. On September 4, 2014, the Company's motion to dismiss the complaint was granted in part and denied in part. The Company filed a motion for summary judgment in December 2015. In April 2016, the Court granted the Company's motion for summary judgment, which disposes of all remaining claims against the Company in the matter. The plaintiffs filed a notice of appeal in May 2016 and the matter has been assigned by the Court of Appeals for mediation. The Company will continue to vigorously defend itself.

The Company does not believe a loss is probable related to the above litigation. Further, a reasonable estimate of a possible range of loss cannot be made. In the event that one or more of these matters is unfavorably resolved, it is possible the Company's results from operations, financial position or liquidity could be materially impacted.

In 2012, the Company received subpoenas from the U. S. Attorney's Office for the Southern District of Indiana (the "USAO") and from the Office of Foreign Assets Control of the United States Department of the Treasury ("OFAC") requesting documents and information related to compliance with export controls and economic sanctions regulations by certain of its subsidiaries. The Company has voluntarily contacted OFAC and the Bureau of Industry and Security of the U. S. Department of Commerce ("BIS"), in connection with these matters as well as regarding compliance with export controls and economic sanctions regulations by certain other business units of the Company identified in connection with an internal review by the Company. On September 1, 2016, the Company entered into an extension of the tolling agreement originally entered into in August 2014, such that the statute of limitations is now tolled until May 1, 2017. The Company is cooperating with the USAO, OFAC and BIS with respect to these matters.

At this stage of the inquiries, the Company is unable to predict the ultimate outcome of these matters or what impact, if any, the outcome of these matters might have on the Company's consolidated financial position, results of operations or cash flows. Violations of export control or economic sanctions laws or regulations could result in a range of governmental enforcement actions, including fines or penalties, injunctions and/or criminal or other civil proceedings, which actions could have a material adverse effect on the Company's reputation, business, financial condition and results of operations. At this time, no claims have been made against the Company.

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, 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, products, 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

This report contains information that may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Generally, the use of terms such as “may,” “could,” “expect,” “intend,” “believe,” “plan,” “estimate,” “forecast,” “project,” “anticipate,” “assumes,” and similar expressions identify forward-looking statements. statements that address operating performance, events or developments that DENTSPLY SIRONA Inc. (“Dentsply Sirona” or the “Company”) expects or anticipates will occur in the future are forward-looking statements. Forward-looking statements are based on management's current expectations and beliefs, and are inherently susceptible to uncertainty, risks, and changes in circumstances that could cause actual results to differ materially from the Company's historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to, those described in Part I, Item 1A (“Risk Factors”) of DENTSPLY International Inc.’s Form 10-K for the year ended December 31, 2015 and those described from time to time in our future reports filed with the U. S. Securities and Exchange Commission. The Company undertakes no duty and has no obligation to update forward-looking statements as a result of future events or developments.

On February 29, 2016, DENTSPLY International Inc. merged with Sirona Dental Systems, Inc. (“Sirona”) to form DENTSPLY SIRONA Inc. The accompanying unaudited interim financial information for the three and nine months ended September 30, 2016, include the results of operations for Sirona for the period February 29, 2016 to September 30, 2016.

References to the “combined businesses” are included below to provide comparisons of net sales performance year over year as if the businesses were combined on January 1, 2015.

## OVERVIEW

### Highlights

For the three months ended September 30, 2016, the Company reported a sales increase of 47.0%, which primarily reflects the impact of consolidating three months of Sirona’s revenues. For the three month period ended September 30, 2016, sales of our combined businesses grew 0.4% on a constant currency basis. This includes a benefit of 0.8% from net acquisitions and was unfavorably impacted by discontinued products by approximately 40 basis points, which results in no internal growth.

On a geographic basis, the combined businesses generated constant currency sales growth of 3.8% in the Rest of World region, 1.6% in Europe, and negative 3.1% in the United States for the three month period ended September 30, 2016.

Third quarter 2016 earnings per diluted share of \$0.39 declined 33.9% compared to \$0.59 in the third quarter of 2015, which largely reflects the higher weighted average common shares outstanding, costs associated with the merger of Sirona and a one-time gain on a fair-value adjustment in the prior year related to a non-controlling interest, offset by the impact of consolidating three months of Sirona’s results. On an adjusted basis (a non-US GAAP measure), third quarter 2016 earnings per diluted share of \$0.66 were equal to the earnings per diluted share reported in the same period in the prior year.

During the quarter ended September 30, 2016, the Company completed two acquisitions totaling \$395.9 million, including the previously announced acquisition of MIS Implants Technologies Ltd., a manufacturer of dental implant systems and a small acquisition of a healthcare consumable business. During the quarter ended September 30, 2016,

the Company also repurchased \$99.6 million of common shares outstanding, bringing the total repurchased in 2016 to \$699.6 million. Since the merger with Sirona in February 2016, the Company has deployed cash in excess of \$1 billion as it both returned cash to shareholders through common share repurchases and paid dividends as well as strengthen the business through acquisitions.

#### Company Profile

Dentsply Sirona is the world's largest manufacturer of professional dental products and technologies, with a 130-year history 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, and the international headquarters is based in Salzburg, Austria. The Company's shares are listed in the United States on NASDAQ under the symbol XRAY.

## Business

The Company operates in two business segments, Dental and Healthcare Consumables and Technologies.

The Dental and Healthcare Consumables segment includes responsibility for the worldwide design, manufacture, sales and distribution of the Company's preventive, restorative, instruments, endodontic, and laboratory dental products, as well as consumable medical device products.

The Technologies segment is responsible for the worldwide design, manufacture, sales and distribution of the Company's dental implants, CAD/CAM systems, imaging systems, treatment centers and orthodontic 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 ("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 average 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 allows it to grow faster than the underlying dental market.

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 or functions to reduce costs. The Company believes that the benefits from these global efficiency initiatives will improve the cost structure and help mitigate the impacts of rising costs such as energy, employee benefits and regulatory oversight and compliance.

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 target adjusted operating income margins will continue to 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 and consumable medical device 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 distributor inventory management 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 at those distributors to the extent that future purchase commitments may not be met and could impact the Company's consolidated net sales and net income in a given period or over multiple periods. Any of these fluctuations could be material to the Company's consolidated financial statements.

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.

In October 2016, the Company announced that it is proposing plans in Germany to reorganize and combine portions of its manufacturing, logistics and distribution networks within both of the Company's segments. As required under German law, the Company has entered into a statutory co-determination process under which it will collaborate with the appropriate labor groups to jointly define the infrastructure and staffing adjustments necessary to support this initiative. The Company also initiated similar actions in other regions of the world. The Company estimates the cost of these initiatives to range up to \$85 million, primarily for severance related benefits for employees, which is expected to be incurred as actions are implemented over the next two years.

#### 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 and interest rates may unfavorably or favorably impact the Company's results of operations, financial condition and liquidity. For the nine months ended September 30, 2016, net sales, excluding precious metal content, were unfavorably impacted by approximately 1.3% and earnings per diluted common share by approximately \$0.06 due to movements in foreign currency exchange rates.

#### Reclassification of Prior Year Amounts

Certain reclassifications have been made to prior year's data in order to conform to current year presentation. Specifically, during the March 31, 2016 quarter, the Company realigned reporting responsibilities as a result of the merger and changed the management structure. The segment information reflects the revised structure for all periods shown.

### RESULTS OF OPERATIONS, QUARTER ENDED SEPTEMBER 30, 2016 COMPARED TO QUARTER ENDED SEPTEMBER 30, 2015

#### Net Sales

The discussion below summarizes the Company's sales growth which excludes precious metal content, into the following components: (1) impact of the merger; and (2) the results of the "combined businesses" as if the businesses were merged on January 1, 2015. 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 Ended September 30,			
	2016	2015	\$ Change	% Change
Net sales	\$954.2	\$648.9	\$305.3	47.0 %
Less: precious metal content of sales	15.0	19.6	(4.6 )	(23.5%)
Net sales, excluding precious metal content	\$939.2	\$629.3	\$309.9	49.2 %

Net sales, excluding precious metal content, for the three months ended September 30, 2016 were \$939.2 million, an increase of \$309.9 million from the third quarter of 2015, as reported by legacy DENTSPLY. This excludes approximately \$1.6 million of revenue that was eliminated in fair value purchase accounting adjustments to deferred income.

Sales related to precious metal content declined 23.5% in the quarter, which was primarily related to the discontinued refinery product lines.

For the three month period ended September 30, 2016, sales of our combined businesses grew 40 basis points on a constant currency basis. This includes a benefit of 80 basis points from net acquisitions and was unfavorably impacted by discontinued products by approximately 40 basis points, which results in no internal sales growth. Net sales, excluding precious metal content, were positively impacted by approximately 40 basis points due to the weakening of the U.S. dollar over the prior year period. A reconciliation of reported net sales to net sales, excluding precious metal content, of the combined business is as follows:

(in millions)	Three Months Ended September 30,			
	2016	2015	\$ Change	% Change
Net sales	\$954.2	\$648.9	\$305.3	47.0 %
Less: precious metal content of sales	15.0	19.6	(4.6 )	(23.5%)
Net sales, excluding precious metal content	939.2	629.3	309.9	49.2 %
Sirona net sales (a)	—	304.9	(304.9 )	NM
Merger related adjustments (b)	1.6	—	1.6	NM
Elimination of intercompany net sales	—	(0.5 )	0.5	NM
Non-US GAAP combined business, net sales, excluding precious metal content	\$940.8	\$933.7	\$7.1	0.8 %

(a) Represents Sirona sales for the quarter ended September 30, 2015.

(b) Represents an adjustment to reflect deferred subscription and warranty revenue that was eliminated under business combination accounting standards to make the 2016 and 2015 non-U.S. GAAP combined business results comparable.

NM - Not meaningful

#### Sales Growth by Region

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

Three Months  
Ended  
September 30,

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

(in millions)	2016	2015	\$ Change	% Change
United States	\$334.2	\$249.5	\$ 84.7	33.9 %
Europe	348.3	246.5	101.8	41.3 %
Rest of World	256.7	133.3	123.4	92.6 %

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

(in millions)	Three Months Ended September 30, 2016			
	United States	Europe	Rest of World	Total
Net sales	\$335.6	\$357.2	\$261.4	\$954.2
Less: precious metal content of sales	1.4	8.9	4.7	15.0
Net sales, excluding precious metal content	334.2	348.3	256.7	939.2
Merger related adjustments (a)	1.1	0.5	—	1.6
Non-US GAAP combined business, net sales, excluding precious metal content	\$335.3	\$348.8	\$256.7	\$940.8

(a) Represents an adjustment to reflect deferred subscription and warranty revenue that was eliminated under business combination accounting standards to make the 2016 and 2015 non-U.S. GAAP combined business results comparable.

(in millions)	Three Months Ended September 30, 2015			
	United States	Europe	Rest of World	Total
Net sales	\$251.0	\$258.4	\$139.5	\$648.9
Less: precious metal content of sales	1.5	11.9	6.2	19.6
Net sales, excluding precious metal content	249.5	246.5	133.3	629.3
Sirona net sales (a)	96.2	101.4	107.3	304.9
Elimination of intercompany net sales	—	(0.5 )	—	(0.5 )
Non-US GAAP combined business, net sales, excluding precious metal content	\$345.7	\$347.4	\$240.6	\$933.7

(a) Represents Sirona sales for the quarter ended September 30, 2015.

#### United States

Reported net sales, excluding precious metal content, increased by 33.9% in the third quarter of 2016 as compared to the third quarter of 2015. This increase reflects sales of \$89.4 million as a result of the consolidation of the Sirona businesses for three months. This excludes approximately \$1.1 million of revenue that was eliminated in fair value purchase accounting adjustments to deferred income.

For the three month period ended September 30, 2016, sales of our combined businesses declined 3.1% on a constant currency basis. This includes a benefit of 30 basis points from net acquisitions and was unfavorably impacted by discontinued products by approximately 20 basis points, which results in a negative internal sales growth rate of 3.2%. The decline in sales equally impacted both segments and was the result of the timing of distributor purchases compared to the prior period.

#### Europe

Reported net sales, excluding precious metal content, increased by 41.3% in the third quarter of 2016 as compared to the third quarter of 2015. This increase reflects sales of \$100.0 million as a result of the consolidation of the Sirona businesses for three months. This excludes approximately \$0.5 million of revenue that was eliminated in fair value purchase accounting adjustments to deferred income.

For the three month period ended September 30, 2016, sales of our combined businesses grew 1.6% on a constant currency basis. This includes a benefit of 80 basis points from net acquisitions and was unfavorably impacted by discontinued products by approximately 40 basis points, which results in internal sales growth of 1.2%. Net sales, excluding precious metal content, were negatively impacted by approximately 1.1% due to the strengthening of the U.S. dollar over the prior year period. Internal sales growth in this region was primarily driven by higher demand in the Dental and Healthcare Consumables segment.



## Rest of World

Reported net sales, excluding precious metal content, increased by 92.6% in the third quarter of 2016 as compared to the third quarter of 2015. This increase reflects sales of \$107.0 million as a result of the consolidation of the Sirona businesses for three months.

For the three month period ended September 30, 2016, sales of our combined businesses grew 3.8% on a constant currency basis. This includes a benefit of 1.3% from net acquisitions and was unfavorably impacted by discontinued products by approximately 10 basis points, which results in internal sales growth of 2.6%. Net sales, excluding precious metal content, were positively impacted by approximately 2.8% due to the weakening of the U.S. dollar over the prior year period. Internal sales growth in the Rest of World region was primarily driven by higher demand in the Technologies segment.

## Gross Profit

(in millions)	Three Months Ended September 30,		\$ Change	% Change
	2016	2015		
Gross profit	\$513.6	\$369.5	\$ 144.1	39.0 %
Gross profit as a percentage of net sales, including precious metal content	53.8	% 56.9	%	
Gross profit as a percentage of net sales, excluding precious metal content	54.7	% 58.7	%	

Gross profit as a percentage of net sales, excluding precious metal content, decreased by 400 basis points for the quarter ended September 30, 2016 as compared to the same three month period ended September 30, 2015. Sirona's lower gross profit rate negatively impacted the gross profit rate by approximately 450 basis points as well as unfavorable product mix and foreign currency impacts which were partially offset by savings from the global efficiency program and favorable product pricing during the quarter ended September 30, 2016 as compared to the September 30, 2015 quarter.

## Operating Expenses

(in millions)	Three Months Ended September 30,		\$ Change	% Change
	2016	2015		
Selling, general and administrative expenses ("SG&A")	\$379.1	\$264.3	\$ 114.8	43.4 %
Restructuring and other costs	7.9	6.6	1.3	19.7 %
SG&A as a percentage of net sales, including precious metal content	39.7	% 40.7	%	
SG&A as a percentage of net sales, excluding precious metal content	40.4	% 42.0	%	

## SG&amp;A Expenses

SG&A expenses, including research and developing expenses, as a percentage of net sales, excluding precious metal content, for the quarter ended September 30, 2016 decreased 160 basis points compared to the quarter ended

September 30, 2015. The decrease was primarily the result of Sirona's lower operating expense rate and savings from the global efficiency program, partially offset by increased amortization expense and other costs related to the merger.

Other Income and Expense

	Three Months Ended September 30,		
(in millions)	2016	2015	Change
Net interest expense	\$7.9	\$9.2	\$ (1.3 )
Other expense (income), net	1.6	(3.8 )	5.4
Net interest and other expense	\$9.5	\$5.4	\$4.1

40

---

## Net Interest Expense

Net interest expense for the three months ended September 30, 2016 was \$1.3 million lower compared to the three months ended September 30, 2015. The net decrease is a result of lower average interest rates in 2016 compared to the prior year period resulting in a decrease of \$1.2 million in interest expense while interest income increased \$0.1 million.

## Other Expense (Income), Net

Other expense (income), net for the three months ended September 30, 2016 was expense of \$1.6 million, comprised primarily of \$1.1 million of income on net investment hedges offset by \$2.7 million of currency transaction loss. Other expense (income), net for the three months ended September 30, 2015 was income of \$3.8 million, comprised primarily of \$2.0 million of income on net investment hedges and \$2.6 million of currency transaction gains, partially offset by \$0.8 million of other expense.

## Income Taxes and Net Income

(in millions, except per share data)	Three Months Ended September 30,		
	2016	2015	\$ Change
Provision (benefit) for income taxes	\$24.8	\$19.6	\$5.2
Effective income tax rate	21.2 %	21.0 %	
Equity in net income (loss) of unconsolidated affiliated company	\$—	\$10.8	\$(10.8)
Net income attributable to Dentsply Sirona	\$92.5	\$84.5	\$8.0
Earnings per common share - diluted	\$0.39	\$0.59	

## Provision for Income Taxes

For the three months ended September 30, 2016, income taxes were a net expense of \$24.8 million. During the quarter, the Company recorded \$5.1 million of tax expense related to discrete tax matters and \$1.5 million of tax expense change related to the March 31, 2016 quarter valuation allowance release. Excluding these tax matters, the Company's effective tax rate was 15.6%. The effective tax rate was favorably impacted by the Company's change in the mix of consolidated earnings.

The Company's effective income tax rate for the third quarter of 2016 included the net impact of amortization of purchased intangible assets, business combination related costs and fair value adjustments, income tax related adjustments, restructuring program related costs and other costs and credit risk and fair value adjustments which impacted income before income taxes and the provision for income taxes by \$69.6 million and \$6.5 million, respectively.

In the third quarter of 2015, the Company's effective income tax rate included the net impact of restructuring program related costs and other costs, amortization of purchased intangible assets, business combination related costs and fair value adjustments, credit risk and fair value adjustments, certain fair value adjustments related to an unconsolidated

affiliated company and income tax related adjustments which impacted income before income taxes and the provision for income taxes by \$27.7 million and \$7.8 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 net of tax impact of 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 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) Certain fair value adjustments related to an unconsolidated affiliated company. This adjustment represents the fair value adjustment of the unconsolidated affiliated company's convertible debt instrument held by the Company. The affiliate is accounted for under the equity method of accounting. The fair value adjustment is driven by open market pricing of the affiliate's equity instruments, which has a high degree of variability and may not be indicative of the operating performance of the affiliate or the Company.

(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. 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 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.

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

(in millions, except per share amounts)	Three Months Ended September 30, 2016	
	Net Income	Per Diluted Common Share
Net income attributable to Dentsply Sirona	\$92.5	\$ 0.39
Pre-tax non-US GAAP adjustments:		
Amortization of purchased intangible assets	44.3	
Business combination related costs and fair value adjustments	14.6	
Restructuring program related costs and other costs	8.9	
Credit risk and fair value adjustments	1.8	
Tax impact of the pre-tax non-US GAAP adjustments (a)	(19.0 )	
Subtotal non-US GAAP adjustments	50.6	0.22
Income tax related adjustments	12.5	0.05
Adjusted non-US GAAP net income	\$155.6	\$ 0.66

(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 Ended September 30, 2015	
	Net Income	Per Diluted Common Share
Net income attributable to Dentsply Sirona	\$84.5	\$ 0.59
Pre-tax non-US GAAP adjustments:		
Restructuring program related costs and other costs	15.5	
Amortization of purchased intangible assets	10.9	
Business combination related costs and fair value adjustments	5.4	
Credit risk and fair value adjustments	1.0	
Certain fair value adjustments related to an unconsolidated affiliated company	(15.7 )	
Tax impact of the pre-tax non-US GAAP adjustments (a)	(5.5 )	
Subtotal non-US GAAP adjustments	11.6	0.09
Income tax related adjustments	(2.3 )	(0.02 )
Adjusted non-US GAAP net income	\$93.8	\$ 0.66

(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 Ended September 30, 2016		
	Operating Income	Percentage of Net Sales, Excluding Precious Metal Content	
Operating income attributable to Dentsply Sirona	\$126.6	13.5	%
Amortization of purchased intangible assets	44.3	4.7	%
Business combination related costs and fair value adjustments	14.6	1.6	%
Restructuring program related costs and other costs	8.9	0.9	%
Credit risk and fair value adjustments	1.4	0.1	%
Adjusted non-US GAAP Operating Income	\$195.8	20.8	%

(in millions)	Three Months Ended September 30, 2015		
	Operating Income	Percentage of Net Sales, Excluding Precious Metal Content	
Operating income attributable to Dentsply Sirona	\$98.6	15.7	%
Restructuring program related costs and other costs	15.5	2.5	%
Amortization of purchased intangible assets	10.9	1.7	%
Business combination related costs and fair value adjustments	5.4	0.8	%
Credit risk and fair value adjustments	2.0	0.3	%
Adjusted non-US GAAP Operating Income	\$132.4	21.0	%

Operating Segment Results

Third Party Net Sales, Excluding Precious Metal Content

(in millions)	Three Months Ended September 30,			\$ Change	% Change
	2016	2015			
Dental and Healthcare Consumables	\$497.2	\$464.7	\$32.5	7.0	%
Technologies	442.0	164.6	277.4	NM	



NM - Not meaningful

Segment Operating Income

(in millions)	Three Months Ended September 30,			
	2016	2015	\$ Change	% Change
Dental and Healthcare Consumables	\$ 134.3	\$ 122.8	\$ 11.5	9.4 %
Technologies	89.8	19.5	70.3	NM
NM - Not meaningful				

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

(in millions)	Three Months Ended September 30, 2016		
	Dental	Technologies and Healthcare	Total Consumables
Net sales	\$512.1	\$ 442.1	\$954.2
Less: precious metal content of sales	14.9	0.1	15.0
Net sales, excluding precious metal content	497.2	442.0	939.2
Merger related adjustments (a)	—	1.6	1.6
Non-US GAAP combined business, net sales, excluding precious metal content	\$497.2	\$ 443.6	\$940.8

(a) Represents an adjustment to reflect deferred subscription and warranty revenue that was eliminated under business combination accounting standards to make the 2016 and 2015 non-U.S. GAAP combined business results comparable.

(in millions)	Three Months Ended September 30, 2015		
	Dental	Technologies and Healthcare	Total Consumables
Net sales	\$484.1	\$ 164.8	\$648.9
Less: precious metal content of sales	19.4	0.2	19.6
Net sales, excluding precious metal content	464.7	164.6	629.3
Sirona net sales (a)	33.0	271.9	304.9
Elimination of intercompany net sales	(0.5 )	—	(0.5 )
Non-US GAAP combined business, net sales, excluding precious metal content	\$497.2	\$ 436.5	\$933.7

(a) Represents Sirona sales for the quarter ended September 30, 2015.

#### Dental and Healthcare Consumables

Reported net sales, excluding precious metal content, increased by 7.0% in the third quarter of 2016 as compared to the third quarter of 2015. This increase reflects sales of \$25.4 million as a result of the consolidation of the Sirona businesses for three months.

For the three month period ended September 30, 2016, sales of the combined businesses were flat on a constant currency basis. This includes a benefit of approximately 80 basis points from net acquisitions and was unfavorably impacted by discontinued products by approximately 50 basis points, which results in negative internal sales growth of 30 basis points. Negative internal sales growth was primarily the result of the timing of distributor purchases compared to the prior period.

The operating income increase for the three months ended September 30, 2016 as compared to 2015 reflects the margin improvements realized as a result of the global efficiency program initiatives undertaken in 2015, as well as the impact of the merger.

#### Technologies

Reported net sales, excluding precious metal content, increased \$277.4 million in the third quarter of 2016 as compared to the third quarter of 2015. This increase is due to the consolidation of the Sirona businesses for three months. This excludes approximately \$1.6 million of revenue that was eliminated in fair value purchase accounting adjustments to deferred income.

For the three month period ended September 30, 2016, sales of our combined businesses grew 90 basis points on a constant currency basis. This includes a benefit of 70 basis points from net acquisitions which results in internal sales growth of 20 basis points. Net sales, excluding precious metal content, were positively impacted by approximately 70 basis points due to the weakening

of the U.S. dollar over the prior year period. Internal sales growth in this segment reflects increased demand in the Rest of World region offset by the timing of distributor purchases compared to the prior period.

The operating income increase for the three months ended September 30, 2016 as compared to 2015 reflects the impact of the merger.

#### RESULTS OF OPERATIONS, NINE MONTHS ENDED SEPTEMBER 30, 2016 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2015

##### Net Sales

(in millions)	Nine Months Ended September 30,		\$ Change	% Change
	2016	2015		
Net sales	\$2,748.8	\$2,003.2	\$745.6	37.2 %
Less: precious metal content of sales	50.4	67.6	(17.2 )	(25.4%)
Net sales, excluding precious metal content	\$2,698.4	\$1,935.6	\$762.8	39.4 %

Net sales, excluding precious metal content, for the nine months ended September 30, 2016 were \$2,698.4 million, an increase of \$762.8 million from the third quarter of 2015, as reported by legacy DENTSPLY. The consolidation of Sirona since the merger date contributed sales of \$745.1 million for the nine months ended September 30, 2016. This excludes approximately \$12.0 million of revenue that was eliminated in fair value purchase accounting adjustments to deferred income.

Sales related to precious metal content declined 25.4% for the nine months ended September 30, 2016, which was primarily related to the discontinued refinery product lines.

For the nine month period ended September 30, 2016, sales of our combined businesses grew 3.4% on a constant currency basis. This includes a benefit of 1.3% from net acquisitions and was unfavorably impacted by discontinued products by approximately 50 basis points, which leads to internal sales growth of 2.6%. Net sales, excluding precious metal content, were negatively impacted by approximately 1.0% due to the strengthening of the U.S. dollar over the prior year period. A reconciliation of reported net sales to net sales, excluding precious metal content, of the combined business is as follows:

(in millions)	Nine Months Ended September 30,		\$ Change	% Change
	2016	2015		
Net sales	\$2,748.8	\$2,003.2	\$745.6	37.2 %
Less: precious metal content of sales	50.4	67.6	(17.2 )	(25.4%)
Net sales, excluding precious metal content	2,698.4	1,935.6	762.8	39.4 %
Sirona net sales (a)	160.7	868.3	(707.6 )	NM
Merger related adjustments (b)	12.0	—	12.0	NM
Elimination of intercompany net sales	(0.4 )	(1.8 )	1.4	NM
	\$2,870.7	\$2,802.1	\$68.6	2.4 %

Non-US GAAP combined business, net sales, excluding precious metal content

(a) Represents Sirona sales for January and February 2016, and the nine months ended September 30, 2015.

(b) Represents an adjustment to reflect deferred subscription and warranty revenue that was eliminated under business combination accounting standards to make the 2016 and 2015 non-U.S. GAAP combined business results comparable.

NM - Not meaningful

Sales Growth by Region

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

	Nine Months Ended September 30,			
(in millions)	2016	2015	\$ Change	% Change
United States	\$978.6	\$738.2	\$240.4	32.6 %
Europe	1,030.3	791.6	238.7	30.2 %
Rest of World	689.5	405.8	283.7	69.9 %

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

(in millions)	Nine Months Ended September 30, 2016			
	United States	Europe	Rest of World	Total
Net sales	\$982.6	\$1,060.8	\$705.4	\$2,748.8
Less: precious metal content of sales	4.0	30.5	15.9	50.4
Net sales, excluding precious metal content	978.6	1,030.3	689.5	2,698.4
Sirona net sales (a)	60.5	59.4	40.8	160.7
Merger related adjustments (b)	11.0	1.0	—	12.0
Elimination of intercompany net sales	(0.1 )	(0.3 )	—	(0.4 )
Non-US GAAP combined business, net sales, excluding precious metal content	\$1,050.0	\$1,090.4	\$730.3	\$2,870.7

(a) Represents Sirona sales for January and February 2016.

(b) Represents an adjustment to reflect deferred subscription and warranty revenue that was eliminated under business combination accounting standards to make the 2016 and 2015 non-U.S. GAAP combined business results comparable.

(in millions)	Nine Months Ended September 30, 2015			
	United States	Europe	Rest of World	Total
Net sales	\$743.9	\$833.5	\$425.8	\$2,003.2
Less: precious metal content of sales	5.7	41.9	20.0	67.6
Net sales, excluding precious metal content	738.2	791.6	405.8	1,935.6
Sirona net sales (a)	280.9	300.1	287.3	868.3
Elimination of intercompany net sales	(0.1 )	(1.7 )	—	(1.8 )
Non-US GAAP combined business, net sales, excluding precious metal content	\$1,019.0	\$1,090.0	\$693.1	\$2,802.1

(a) Represents Sirona sales for the nine months ended September 30, 2015.

United States

Reported net sales, excluding precious metal content, for the nine months ended September 30, 2016, increased by 32.6% as compared to the nine months ended September 30, 2015. This increase reflects sales of \$244.0 million as a result of the consolidation of the Sirona businesses since the merger date. This excludes approximately \$11.0 million of revenue that was eliminated in fair value purchase accounting adjustments to deferred income.

For the nine month period ended September 30, 2016, sales of our combined businesses grew 3.1% on a constant currency basis. This includes a benefit of 2.4% from net acquisitions and was unfavorably impacted by discontinued products by approximately 40 basis points, which results in internal sales growth of 1.1%. Both segments generated comparable positive internal sales growth for the nine months ended September 30, 2016 as a result of higher demand in this region.

## Europe

Reported net sales, excluding precious metal content, for the nine months ended September 30, 2016, increased by 30.2% as compared to the nine months ended September 30, 2015. This increase reflects sales of \$243.5 million as a result of the consolidation of the Sirona businesses since the merger date. This excludes approximately \$1.0 million of revenue that was eliminated in fair value purchase accounting adjustments to deferred income.

For the nine month period ended September 30, 2016, sales of our combined businesses grew 1.6% on a constant currency basis. This includes a benefit of 30 basis points from net acquisitions and was unfavorably impacted by discontinued products by approximately 70 basis points, which results in internal sales growth of 2.0%. Net sales, excluding precious metal content, were negatively impacted by approximately 1.6% due to the strengthening of the U.S. dollar over the prior year period. Internal sales growth in this region was primarily driven by higher demand in the Dental and Healthcare Consumables segment.

## Rest of World

Reported net sales, excluding precious metal content, for the nine months ended September 30, 2016, increased by 69.9% as compared to the nine months ended September 30, 2015. This increase reflects sales of \$257.7 million as a result of the consolidation of the Sirona businesses since the merger date.

For the nine month period ended September 30, 2016, sales of our combined businesses grew 6.7% on a constant currency basis. This includes a benefit of 1.3% from net acquisitions and was unfavorably impacted by discontinued products by approximately 30 basis points, which results in internal sales growth of 5.7%. Net sales, excluding precious metal content, were negatively impacted by approximately 1.4% due to the strengthening of the U.S. dollar over the prior year period. Both segments generated comparable positive internal sales growth for the nine months ended September 30, 2016 as a result of higher demand in this region.

## Gross Profit

(in millions)	Nine Months Ended September 30,		\$ Change	% Change
	2016	2015		
Gross profit	\$1,459.4	\$1,142.5	\$ 316.9	27.7 %
Gross profit as a percentage of net sales, including precious metal content	53.1	% 57.0	%	
Gross profit as a percentage of net sales, excluding precious metal content	54.1	% 59.0	%	

Gross profit as a percentage of net sales, excluding precious metal content, decreased by 490 basis points for the nine months ended September 30, 2016 as compared to the same nine month period ended September 30, 2015. The roll-off of merger related fair value adjustments and the impact of Sirona's lower gross profit rate negatively impacted the gross profit rate by approximately 650 basis points, partially offset by savings from the global efficiency program and favorable product pricing during the nine months ended September 30, 2016 as compared to the same nine-month period ended September 30, 2015.

## Operating Expenses

(in millions)	Nine Months Ended September 30,	
	2016	2015



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

			\$	%
			Change	Change
Selling, general and administrative expenses (“SG&A”)	\$1,123.3	\$809.5	\$313.8	38.8 %
Restructuring and other costs	15.6	50.9	(35.3 )	(69.4%)
SG&A as a percentage of net sales, including precious metal content	40.9	% 40.4	%	
SG&A as a percentage of net sales, excluding precious metal content	41.6	% 41.8	%	

48

---

## SG&amp;A Expenses

SG&A expenses, including research and development expenses, as a percentage of net sales, excluding precious metal content, for the nine months ended September 30, 2016 decreased 20 basis points compared to the nine months ended September 30, 2015. The decrease was primarily the result of Sirona's lower operating expense rate and savings from the global efficiency program, partially offset by increased amortization expense and other costs related to the merger which negatively impacted the rate by approximately 430 basis points.

## Restructuring and Other Costs

The Company recorded net restructuring and other costs of \$15.6 million for the nine months ended September 30, 2016 compared to \$50.9 million for the nine months ended September 30, 2015. In 2015, the Company reorganized portions of its laboratory business and associated manufacturing capabilities within the Dental and Healthcare Consumables segment.

In October 2016, the Company announced that it is proposing plans in Germany to reorganize and combine portions of its manufacturing, logistics and distribution networks within both of the Company's segments. As required under German law, the Company has entered into a statutory co-determination process under which it will collaborate with the appropriate labor groups to jointly define the infrastructure and staffing adjustments necessary to support this initiative. The Company also initiated similar actions in other regions of the world. The Company estimates the cost of these initiatives to range up to \$85 million, primarily for severance related benefits for employees, which is expected to be incurred as actions are implemented over the next two years.

## Other Income and Expense

(in millions)	Nine Months Ended September 30,		
	2016	2015	Change
Net interest expense	\$25.5	\$28.3	\$(2.8 )
Other expense (income), net	(13.3 )	(3.6 )	(9.7 )
Net interest and other expense	\$12.2	\$24.7	\$(12.5)

## Net Interest Expense

Net interest expense for the nine months ended September 30, 2016 was \$2.8 million lower compared to the nine months ended September 30, 2015. The net decrease is a result of lower average interest rates in 2016 compared to the prior year period resulting in a decrease of \$3.2 million in interest expense.

## Other Expense (Income), Net

Other expense (income), net for the nine months ended September 30, 2016 was income of \$13.3 million, comprised primarily of \$5.9 million of income on net investment hedges and currency transaction gains of \$3.4 million principally due to the United Kingdom Brexit referendum impacts on foreign currency denominated intercompany balances through September 30, 2016, and non-operating income of \$4.0 million including a \$5.7 million gain on the sale of a business in the March 2016 quarter. Other expense (income), net for the nine months ended September 30, 2015 was income of \$3.6 million, comprised of income of \$5.1 million from interest and non-cash fair value adjustments on cross currency basis swaps not designated as hedges that offset currency risk on intercompany loans, \$2.8 million of income on net investment hedges and currency transaction losses of \$3.0 million, partially offset by

\$1.4 million of other expense.

## Income Taxes and Net Income

(in millions, except per share data)	Nine Months Ended September 30,		
	2016	2015	\$ Change
Provision (benefit) for income taxes	\$(15.2 )	\$63.2	NM
Effective income tax rate	NM	24.6	%
Equity in net income (loss) of unconsolidated affiliated company	\$—	\$(1.7 )	\$ 1.7
Net income attributable to Dentsply Sirona	\$322.9	\$192.6	\$ 130.3
Earnings per common share - diluted	\$1.48	\$1.35	

NM - Not meaningful

## Provision for Income Taxes

For the nine months ended September 30, 2016, income taxes were a net benefit of \$15.2 million. During the first nine months the Company recorded a tax benefit from the release of a valuation allowance on previously unrecognized tax assets related to foreign interest deduction carryforwards of a non-U.S. legacy DENTSPLY subsidiary of approximately \$77.1 million, resulting from the merger. The Company also recorded \$9.6 million of tax expense related to other discrete tax matters. Excluding the impact of these tax matters, the Company's effective tax rate was 17.0%. The effective tax rate was favorably impacted by the Company's change in the mix of consolidated earnings.

The Company's effective income tax rate for the first nine months of 2016 included the net impact of business combination related costs and fair value adjustments, amortization of purchased intangible assets, 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 benefit for income taxes by \$273.5 million and \$137.4 million, respectively.

In the first nine months of 2015, the Company's effective income tax rate included the net impact of restructuring program related costs and other costs, amortization of purchased intangible assets, business combination related costs and fair value adjustments, credit risk and fair value adjustments, certain fair value adjustments related to an unconsolidated affiliated company and income tax related adjustments which impacted income before income taxes and the provision for income taxes by \$106.3 million and \$19.7 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.

50

---

(in millions, except per share amounts)	Nine Months Ended September 30, 2016	
	Net Income	Per Diluted Common Share
Net income attributable to Dentsply Sirona	\$322.9	\$ 1.48
Pre-tax non-US GAAP adjustments:		
Business combination related costs and fair value adjustments	145.9	
Amortization of purchased intangible assets	109.7	
Restructuring program related costs and other costs	13.2	
Credit risk and fair value adjustments	4.7	
Tax impact of the pre-tax non-US GAAP adjustments (a)	(72.0 )	
Subtotal non-US GAAP adjustments	201.5	0.93
Income tax related adjustments	(65.4 )	(0.30 )
Adjusted non-US GAAP net income	\$459.0	\$ 2.11

(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)	Nine Months Ended September 30, 2015	
	Net Income	Per Diluted Common Share
Net income attributable to Dentsply Sirona	\$192.6	\$ 1.35
Pre-tax non-US GAAP adjustments:		
Restructuring program related costs and other costs	65.7	
Amortization of purchased intangible assets	32.8	
Business combination related costs and fair value adjustments	7.3	
Credit risk and fair value adjustments	5.7	
Certain fair value adjustments related to an unconsolidated affiliated company	(2.8 )	
Tax impact of the pre-tax non-US GAAP adjustments (a)	(22.8 )	
Subtotal non-US GAAP adjustments	85.9	0.61
Income tax related adjustments	3.1	0.02
Adjusted non-US GAAP net income	\$281.6	\$ 1.98

(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)	Nine Months Ended September 30, 2016		
	Operating Income	Percentage of Net Sales, Excluding Precious Metal Content	
Operating income attributable to Dentsply Sirona	\$320.5	11.9	%
Business combination related costs and fair value adjustments	145.5	5.4	%
Amortization of purchased intangible assets	109.7	4.0	%
Restructuring program related costs and other costs	18.1	0.7	%
Credit risk and fair value adjustments	4.0	0.1	%
Adjusted non-US GAAP Operating Income	\$597.8	22.1	%

(in millions)	Nine Months Ended September 30, 2015		
	Operating Income	Percentage of Net Sales, Excluding Precious Metal Content	
Operating income attributable to Dentsply Sirona	\$282.1	14.6	%
Restructuring program related costs and other costs	65.7	3.4	%
Amortization of purchased intangible assets	32.8	1.7	%
Business combination related costs and fair value adjustments	7.3	0.4	%
Credit risk and fair value adjustments	6.0	0.3	%
Adjusted non-US GAAP Operating Income	\$393.9	20.4	%

Operating Segment Results

Third Party Net Sales, Excluding Precious Metal Content

(in millions)	Nine Months Ended September 30,		\$ Change	% Change
	2016	2015		
Dental and Healthcare Consumables	\$1,494.7	\$1,408.0	\$86.7	6.2 %
Technologies	1,203.7	527.6	676.1	NM



NM - Not meaningful

Segment Operating Income

(in millions)	Nine Months Ended September 30,		\$	%
	2016	2015	Change	Change
Dental and Healthcare Consumables	\$416.7	\$361.9	\$54.8	15.1 %
Technologies	255.7	62.2	\$193.5	NM
NM - Not meaningful				

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

(in millions)	Nine Months Ended September 30, 2016		
	Dental	and Healthcare Technologies Consumables	Total
Net sales	\$1,544.8	\$ 1,204.0	\$2,748.8
Less: precious metal content of sales	50.1	0.3	50.4
Net sales, excluding precious metal content	1,494.7	1,203.7	2,698.4
Sirona net sales (a)	15.7	145.0	160.7
Merger related adjustments (b)	—	12.0	12.0
Elimination of intercompany net sales	(0.4 )	—	(0.4 )
Non-US GAAP combined business, net sales, excluding precious metal content	\$1,510.0	\$ 1,360.7	\$2,870.7

(a) Represents Sirona sales for January and February 2016.

(b) Represents an adjustment to reflect deferred subscription and warranty revenue that was eliminated under business combination accounting standards to make the 2016 and 2015 non-U.S. GAAP combined business results comparable.

(in millions)	Nine Months Ended September 30, 2015		
	Dental	and Healthcare Technologies Consumables	Total
Net sales	\$1,475.1	\$ 528.1	\$2,003.2
Less: precious metal content of sales	67.1	0.5	67.6
Net sales, excluding precious metal content	1,408.0	527.6	1,935.6
Sirona net sales (a)	85.5	782.8	868.3
Elimination of intercompany net sales	(1.8 )	—	(1.8 )
Non-US GAAP combined business, net sales, excluding precious metal content	\$1,491.7	\$ 1,310.4	\$2,802.1

(a) Represents Sirona sales for the nine months ended September 30, 2015.

#### Dental and Healthcare Consumables

Reported net sales, excluding precious metal content, increased by 6.2% as compared to the nine months ended September 30, 2015. This increase reflects sales of \$64.9 million as a result of the consolidation of the Sirona businesses since the merger date.

For the nine month period ended September 30, 2016, sales of our combined businesses grew 2.5% on a constant currency basis. This includes a benefit of approximately 70 basis points from net acquisitions and was unfavorably impacted by discontinued products by approximately 90 basis points, which results in internal sales growth of 2.7%. Net sales, excluding precious metal content, were negatively impacted by approximately 1.2% due to the strengthening of the U.S. dollar over the prior year period. Internal sales growth was positive in all regions, led by the Rest of World region, and was the result of higher demand.

The operating income increase for the nine months ended September 30, 2016 as compared to 2015 reflects margin improvements realized as a result of the global efficiency program initiatives undertaken in 2015, as well as the impact of the merger.

#### Technologies

Reported net sales, excluding precious metal content, increased \$676.1 million as compared to the the nine months ended September 30, 2015. This increase reflects sales of \$680.2 million as a result of the consolidation of the Sirona businesses since the merger date. This excludes approximately \$12.0 million of revenue that was eliminated in fair value purchase accounting adjustments to deferred income.

For the nine month period ended September 30, 2016, sales of our combined businesses grew 4.5% on a constant currency basis. This includes a benefit of 2.0% from net acquisitions which results in internal sales growth of 2.5%. Net sales, excluding precious metal content, were negatively impacted by approximately 60 basis points due to the strengthening of the U.S. dollar over the prior year period. Internal sales growth was positive in all regions, led by the Rest of World region, and was the result of higher demand.

The operating income increase for the nine months ended September 30, 2016 as compared to 2015 reflects the impact of the merger.

## 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, 2015.

### 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.

The performance of the Company's 2016 annual impairment test did not result in any impairment of the Company's goodwill. The weighted average cost of capital ("WACC") rates utilized in the 2016 analysis ranged from 6.7% to 14.7%. Had the WACC rate of each of the Company's reporting units been hypothetically increased by 100 basis points at April 30, 2016, the fair value of those reporting units would still exceed net book value. If the fair value of each of the Company's reporting units had been hypothetically reduced by 5% at April 30, 2016, the fair value of those reporting units would still exceed net book value. If the fair value of each of the Company's reporting units had been hypothetically reduced by 10% at April 30, 2016, one reporting unit, within the Company's Technologies segment, would have a fair value that would approximate net book value. Goodwill for the reporting unit totals \$64.5 million at September 30, 2016. To the extent that future operating results of the reporting units do not meet the forecasted cash flows the Company can provide no assurance that a future goodwill impairment charge would not be incurred.

#### 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.

The performance of the Company's 2016 annual impairment test did not result in any impairment of the Company's indefinite-lived assets. If the fair value of each of the Company's indefinite-lived intangibles assets had been hypothetically reduced by 10% or the discount rate had been hypothetically increased by 50 basis points at April 30, 2016, the fair value of these assets would still exceed their book value.

## LIQUIDITY AND CAPITAL RESOURCES

Nine months ended September 30, 2016

Cash flow from operating activities during the nine months ended September 30, 2016 was \$341.0 million compared to \$371.0 million during the nine months ended September 30, 2015. The year over year decrease in the first nine months' cash from operations was primarily related to increases in accounts receivable and payments on income taxes, as well as merger transaction related fees and integration costs. The Company's cash and cash equivalents increased by \$46.1 million to \$330.7 million during the nine months ended September 30, 2016.

For the nine months ended September 30, 2016, the number of days of sales outstanding in accounts receivable increased by nine days to 63 days as compared to 54 days at December 31, 2015. On a constant currency basis, the number of days of sales in inventory increased by six days to 116 days at September 30, 2016 as compared to 110 days at December 31, 2015.

The cash provided by investing activities during the first nine months of 2016 included cash acquired in the merger of Sirona of \$522.3 million partially offset by capital expenditures of \$79.0 million. The Company expects capital expenditures to be in the range of approximately \$110.0 million to \$125.0 million for the full year 2016.

On September 21, 2016, the Company's Board of Directors increased the authorized number of shares that can be held in Treasury by 5.0 million to 39.0 million. Under this program, the Company repurchased 11.4 million shares during the first nine months of 2016 for \$699.6 million. As of September 30, 2016, the Company held 32.9 million shares of treasury stock. The Company received proceeds of \$26.8 million as a result of the exercise of 0.9 million of stock options during the nine months ended September 30, 2016.

The Company's total borrowings increased by a net \$433.1 million during the nine months ended September 30, 2016, which includes an increase of \$26.6 million due to exchange rate fluctuations on debt denominated in foreign currencies. At September 30, 2016, the Company's ratio of total net debt to total capitalization was 13.1% compared to 27.1% at December 31, 2015. 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.

On February 19, 2016, the Company issued the following: 11.0 million euros aggregate principal amount bearing interest of 2.05%, Series F Senior Notes due February 19, 2026; 15.0 million euros aggregate principal amount bearing interest of 2.05%, Series G Senior Notes due February 19, 2026; and 45.0 million euros aggregate principal amount bearing interest of 2.45%, Series H Senior Notes due February 19, 2031. Proceeds from the aforementioned Senior Notes were used to pay the final required payment of \$75.0 million under the \$250.0 million Private Placement Notes that matured on February 19, 2016.

On March 16, 2016, the Company terminated Sirona's Senior Facilities Agreement and repaid the \$52.5 million Facility A Term Loan that was set to mature November 16, 2016.

On August 15, 2016, the Company issued the following: 58.0 million Swiss francs aggregate principal amount bearing interest of 1.01%, Series I Senior Notes due August 15, 2026; 40.0 million euros aggregate principal amount bearing interest of 2.25%, Series J Senior Notes due August 15, 2026; 66.0 million euros aggregate principal amount bearing interest of 2.25%, Series K Senior Notes due August 15, 2026; 140.0 million Swiss francs aggregate principal amount bearing interest of 1.17%, Series L Senior Notes due August 15, 2028; and 65.0 million Swiss francs aggregate principal amount bearing interest of 1.33%, Series M Senior Notes due August 15, 2031. Proceeds from the Senior Notes were used to pay the maturing bond principal of \$300.0 million due August 15, 2016 and to pre-pay Swiss franc 65.0 million final required payment under the term loan that matured on September 1, 2016.

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. On August 26, 2016, the Company paid the third required payment of \$8.8 million under the PNC Term Loan. The fourth annual installment in the amount of \$8.8 million will be due in August 2017 and has been classified as current in the Consolidated Balance Sheet.

Effective June 30, 2016, the Company exercised its option to amend and extend its \$500.0 million five-year multi-currency revolving credit agreement to replace certain lenders and extend the maturity date by one year to July 23, 2021. 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 September 30, 2016, 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 September 30, 2016, there was \$375.0 million in outstanding borrowings under the current \$500.0 million multi-currency revolving credit facility, which has been classified as long-term in the Consolidated Balance Sheets.

The Company also has access to \$42.7 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 September 30, 2016, the Company had \$3.4 million outstanding under these short-term lines of credit. At September 30, 2016, the Company had total unused lines of credit related to the revolving credit agreement and the uncommitted short-term lines of credit of \$174.5 million.

At September 30, 2016, the Company held \$44.8 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.

At September 30, 2016, approximately \$205.7 million of the Company's cash and cash equivalents were held outside of the United States. Most of these balances could be repatriated to the United States, however, under current law, would potentially be subject to U.S. federal income tax, less applicable foreign tax credits. Historically, the Company has generated more than sufficient operating cash flows in the United States to fund domestic operations. Further, the Company expects on an ongoing basis, to be able to finance domestic and international cash requirements, including capital expenditures, stock repurchases, debt service, operating leases and potential future acquisitions, from the funds generated from operations and amounts available under its existing credit facilities. The Company intends to finance the current portion of long-term debt due within the next twelve months utilizing the available commercial paper and the revolving credit facilities as well as other sources of credit.

On June 27, 2016, the Company announced a definitive agreement to acquire all of the outstanding shares of privately held MIS Implants Technologies Ltd. for \$375.0 million in cash. The Company closed the acquisition on September 20, 2016 and satisfied the purchase price by borrowing under the multi-currency revolving credit facility.

On October 27, 2016, the Company executed a new Note Purchase Agreement in a private placement with institutional investors to sell 350.0 million euros aggregate principal amount of senior notes ("Private Placement Notes") at a weighted average interest rate of 1.40%. The Company issued 87.5 million euros in the following series: 17.5 million euros aggregate principal amount bearing interest of 0.98%, Series N Senior Notes due October 27, 2024; 14.5 million euros aggregate principal amount bearing interest of 1.31%, Series O Senior Notes due October 27, 2027; 3.0 million euros aggregate principal amount bearing interest of 1.31%, Series P Senior Notes due October 27, 2027; 15.5 million euros aggregate principal amount bearing interest of 1.50%, Series Q Senior Notes due October 27, 2029; 2.0 million euros aggregate principal amount bearing interest of 1.50%, Series R Senior Notes due October 27, 2029; 6.5 million euros aggregate principal amount bearing interest of 1.58%, Series S Senior Notes due October 27, 2030; 11.0 million euros aggregate principal amount bearing interest of 1.58%, Series T Senior Notes due October 27, 2030; 10.5 million euros aggregate principal amount bearing interest of 1.65%, Series U Senior Notes due October 27, 2031; and 7.0 million euros aggregate principal amount bearing interest of 1.65%, Series V Senior Notes due October 27, 2031. The Company also issued 262.5 million euros in the following series: 52.5 million euros aggregate principal amount bearing interest of 0.98%, Series A Senior Notes due October 27, 2024; 43.5 million euros aggregate principal amount bearing interest of 1.31%, Series B Senior Notes due October 27, 2027; 9.0 million euros aggregate principal amount bearing interest of 1.31%, Series C Senior Notes due October 27, 2027; 46.5 million euros aggregate principal amount bearing interest of 1.50%, Series D Senior Notes due October 27, 2029; 6.0 million euros aggregate principal amount bearing interest of 1.50%, Series E Senior Notes due October 27, 2029; 19.5 million euros aggregate principal amount bearing interest of 1.58%, Series F Senior Notes due October 27, 2030; 33.0 million euros aggregate principal amount bearing interest of 1.58%, Series G Senior Notes due October 27, 2030; 31.5 million euros aggregate principal amount bearing interest of 1.65%, Series H Senior Notes due October 27, 2031; and 21.0 million euros aggregate principal amount bearing interest of 1.65%, Series I Senior Notes due October 27, 2031. Proceeds from the Senior Notes were used to pay the \$375.0 million drawn under the revolving credit facility.

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, 2015.



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 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, 2015.

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 September 30, 2016, that have materially affected, or are likely to materially affect, its internal control over financial reporting. In connection with the merger with Sirona during the quarter ended March 31, 2016, management has documented and is in the process of testing Sirona's internal controls over financial reporting, and will incorporate Sirona into its annual assessment of internal control over financial reporting for the Company's year ending December 31, 2016.

## PART II – OTHER INFORMATION

## Item 1 – Legal Proceedings

Reference to Part I, Item 1, Note 15, Commitments and Contingencies, to the Unaudited Interim Consolidated Financial Statements.

## Item 1A – Risk Factors

Except as set forth in the Company's Form 10-Q for the quarter ended March 31, 2016, there have been no material changes to the risk factors as disclosed in the Company's Form 10-K for the year ended December 31, 2015.

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

## Issuer Purchases of Equity Securities

At September 30, 2016, the Company had authorization to maintain up to 39.0 million shares of treasury stock under the share repurchase program as approved by the Board of Directors on September 21, 2016. During the quarter ended September 30, 2016, the Company had the following activity with respect to this repurchase program:

(in millions, except per share amounts)	Total Number of Shares Purchased	Average Price Paid Per Share	Total Cost of Shares Purchased	Number of Shares that May be Purchased Under the Share Repurchase Program
Period				
July 1, 2016 to July 31, 2016	—	—	—	2.5
August 1, 2016 to August 31, 2016	1.2	\$ 60.69	\$ 75.0	1.5
September 1, 2016 to September 30, 2016	0.4	59.58	24.6	6.1
	1.6	\$ 60.41	\$ 99.6	

Item 6 – Exhibits

Exhibit Number	Description
31	Section 302 Certification Statements
32	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/Jeffrey T. Slovin                      November 4, 2016  
Jeffrey T. Slovin                      Date  
Chief Executive Officer

/s/Ulrich Michel                              November 4, 2016  
Ulrich Michel                              Date  
Executive Vice President and  
Chief Financial Officer