

SIRONA DENTAL SYSTEMS, INC.
Form 10-Q
May 10, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2013

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 000-22673

Sirona Dental Systems, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

incorporation or organization)

30-30 47th Avenue, Suite 500, Long Island City,

New York
(Address of principal executive offices)

Registrant's telephone number, including area code: (718) 482-2011

11-3374812
(I.R.S. Employer

Identification No.)

11101
(Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Edgar Filing: SIRONA DENTAL SYSTEMS, INC. - Form 10-Q

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 the definitions of large accelerated filer, accelerated filer and smaller reporting 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

As of April 30, 2013, the number of shares outstanding of the Registrant's Common Stock, par value \$.01 per share, was 54,937,784.

Table of Contents

SIRONA DENTAL SYSTEMS, INC.

FORM 10-Q

FOR THE THREE MONTHS ENDED MARCH 31, 2013

Index

| | Page |
|---|-------------|
| Part I. | |
| <u>Financial Information (Unaudited)</u> | 1 |
| Item 1. | |
| <u>Financial Statements</u> | 1 |
| <u>Condensed Consolidated Balance Sheets as of March 31, 2013 and September 30, 2012</u> | 1 |
| <u>Condensed Consolidated Statements of Income for the three and six months ended March 31, 2013 and 2012</u> | 2 |
| <u>Condensed Consolidated Statements of Comprehensive Income for the three and six months ended March 31, 2013 and 2012</u> | 3 |
| <u>Consolidated Statement of Changes in Shareholders' Equity for the six months ended March 31, 2013 and 2012</u> | 4 |
| <u>Condensed Consolidated Statements of Cash Flows for the six months ended March 31, 2013 and 2012</u> | 5 |
| <u>Notes to the Condensed Consolidated Financial Statements</u> | 7 |
| Item 2. | |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 27 |
| Item 3. | |
| <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 41 |
| Item 4. | |
| <u>Controls and Procedures</u> | 41 |
| Part II. | |
| <u>Other Information</u> | 42 |
| Item 1. | |
| <u>Legal Proceedings</u> | 42 |
| Item 1A. | |
| <u>Risk Factors</u> | 42 |
| Item 2. | |
| <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 42 |
| Item 3. | |
| <u>Defaults upon Senior Securities</u> | 42 |
| Item 4. | |
| <u>Mine Safety Procedures</u> | 42 |
| Item 5. | |
| <u>Other Information</u> | 42 |
| Item 6. | |
| <u>Exhibits</u> | 42 |
| <u>Signatures</u> | 44 |
| Certifications | |

Table of Contents**PART I FINANCIAL INFORMATION (UNAUDITED)****ITEM 1. FINANCIAL STATEMENTS****SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(UNAUDITED)

| | Financial Statement Notes | March 31, 2013 (unaudited) \$ 000s (except per share amounts) | September 30, 2012 |
|--|---------------------------------|--|-----------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | \$ 156,088 | \$ 151,088 |
| Restricted cash | | 167 | |
| Accounts receivable, net of allowance for doubtful accounts of \$1,535 and \$1,408, respectively | | 126,311 | 132,569 |
| Inventories, net | 6 | 106,376 | 81,007 |
| Deferred tax assets | 10 | 28,271 | 24,781 |
| Prepaid expenses and other current assets | | 24,211 | 17,622 |
| Income tax receivable | 10 | 1,946 | 2,213 |
| Total current assets | | 443,370 | 409,280 |
| Property, plant and equipment, net of accumulated depreciation and amortization of \$139,845 and \$125,706, respectively | | 146,496 | 143,351 |
| Goodwill | 7 | 644,134 | 631,077 |
| Intangible assets, net of accumulated amortization of \$463,173 and \$446,447, respectively | 7 | 309,924 | 288,556 |
| Other non-current assets | | 4,337 | 9,382 |
| Deferred tax assets | 10 | 13,011 | 12,888 |
| Total assets | | \$ 1,561,272 | \$ 1,494,534 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | |
| Current liabilities | | | |
| Trade accounts payable | | \$ 67,442 | \$ 51,961 |
| Short-term debt and current portion of long-term debt | 8 | 344 | 478 |
| Income taxes payable | 10 | 10,729 | 14,906 |
| Deferred tax liabilities | 10 | 336 | 817 |
| Accrued liabilities and deferred income | | 115,753 | 118,075 |
| Total current liabilities | | 194,604 | 186,237 |
| Long-term debt | 9 | 75,000 | 75,000 |
| Deferred tax liabilities | 10 | 131,350 | 122,441 |
| Other non-current liabilities | | 24,372 | 16,852 |
| Pension related provisions | 13 | 61,313 | 61,629 |
| Deferred income | | 35,000 | 40,000 |

Edgar Filing: SIRONA DENTAL SYSTEMS, INC. - Form 10-Q

| | | |
|--|---------------------|---------------------|
| Total liabilities | 521,639 | 502,159 |
| Shareholders equity | | |
| Preferred stock (\$0.01 par value; 5,000,000 shares authorized; none issued and outstanding) | 0 | 0 |
| Common stock (\$0.01 par value; 95,000,000 shares authorized; 56,868,619 shares issued and 54,937,167 shares outstanding at Mar. 31, 2013; 56,598,045 shares issued and 55,051,673 shares outstanding at Sept. 30, 2012) | 569 | 566 |
| Additional paid-in capital | 708,241 | 699,279 |
| Treasury stock (at cost) | | |
| 1,931,452 shares held at cost at Mar. 31, 2013; | | |
| 1,546,372 shares held at cost at Sept. 30, 2012 | (92,926) | (69,058) |
| Excess of purchase price over predecessor basis | (49,103) | (49,103) |
| Retained earnings | 507,431 | 437,471 |
| Accumulated other comprehensive income/(loss) | 5 (36,420) | (29,797) |
| Total Sirona Dental Systems, Inc. shareholders equity | 1,037,792 | 989,358 |
| Noncontrolling interests | 1,841 | 3,017 |
| Total shareholders equity | 1,039,633 | 992,375 |
| Total liabilities and shareholders equity | \$ 1,561,272 | \$ 1,494,534 |

The accompanying notes are an integral part of these financial statements.

Table of Contents**SIRONA DENTAL SYSTEMS, INC.****AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(UNAUDITED)

| | Financial Statement Notes | Three months ended March 31, | | Six months ended March 31, | |
|--|---------------------------------|--|--|--|--|
| | | 2013 \$ 000s (except per share amounts) | 2012 \$ 000s (except per share amounts) | 2013 \$ 000s (except per share amounts) | 2012 \$ 000s (except per share amounts) |
| Revenue | | \$ 267,326 | \$ 231,864 | \$ 539,730 | \$ 489,980 |
| Cost of sales | | 122,620 | 107,215 | 243,153 | 226,548 |
| Gross profit | | 144,706 | 124,649 | 296,577 | 263,432 |
| Selling, general and administrative expense | | 83,992 | 72,667 | 169,775 | 146,313 |
| Research and development | | 15,102 | 13,638 | 29,197 | 26,924 |
| Provision for doubtful accounts and notes receivable | | 547 | 728 | 617 | 767 |
| Net other operating income | | (2,500) | (2,500) | (9,414) | (5,000) |
| Operating income | | 47,565 | 40,116 | 106,402 | 94,428 |
| (Gain)/loss on foreign currency transactions, net | | 1,417 | 1,350 | 5,997 | 3,580 |
| (Gain)/loss on derivative instruments | 15 | 2,564 | (2,936) | 1,218 | (2,500) |
| Interest expense, net | | 830 | 1,014 | 1,800 | 1,917 |
| Other expense/(income) | | 342 | 228 | 682 | 490 |
| Income before taxes | | 42,412 | 40,460 | 96,705 | 90,941 |
| Income tax provision | 10 | 10,179 | 9,305 | 25,405 | 20,916 |
| Net income | | 32,233 | 31,155 | 71,300 | 70,025 |
| Less: Net income attributable to noncontrolling interests | | 575 | 634 | 1,340 | 1,227 |
| Net income attributable to Sirona Dental Systems, Inc. | | \$ 31,658 | \$ 30,521 | \$ 69,960 | \$ 68,798 |
| Income per share (attributable to Sirona Dental Systems, Inc. common shareholders): | 11 | | | | |
| - Basic | | \$ 0.58 | \$ 0.55 | \$ 1.27 | \$ 1.23 |
| - Diluted | | \$ 0.56 | \$ 0.54 | \$ 1.24 | \$ 1.21 |
| Weighted average shares - basic | | 54,928,332 | 55,683,043 | 55,083,264 | 55,804,656 |
| Weighted average shares - diluted | | 56,202,296 | 56,916,390 | 56,384,483 | 57,025,942 |

The accompanying notes are an integral part of these financial statements.

Table of Contents**SIRONA DENTAL SYSTEMS, INC.****AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(UNAUDITED)

| | Financial Statement Notes | Three months ended March 31, | | Six months ended March 31, | |
|---|---------------------------------|---------------------------------|------------------|-------------------------------|------------------|
| | | 2013 | 2012 | 2013 | 2012 |
| | | \$ 000s | | \$ 000s | |
| Net income | | \$ 32,233 | 31,155 | \$ 71,300 | 70,025 |
| Other comprehensive income/(loss), net of tax: | 5 | | | | |
| Cumulative translation adjustment | | (23,300) | 22,834 | (6,987) | (7,405) |
| Net gain/(loss) on derivative financial instruments (hedging) | | 181 | (231) | 231 | (670) |
| Unrecognized elements of pension cost, net of tax | | (235) | (79) | (146) | 171 |
| Total other comprehensive income/(loss) | | (23,354) | 22,524 | (6,902) | (7,904) |
| Total comprehensive income/(loss) | | 8,879 | 53,679 | 64,398 | 62,121 |
| Less: Comprehensive income/(loss) attributable to noncontrolling interests | | 250 | 826 | 1,061 | 1,421 |
| Comprehensive income/(loss) attributable to Sirona Dental Systems, Inc. shareholders | | \$ 8,629 | \$ 52,853 | \$ 63,337 | \$ 60,700 |

The accompanying notes are an integral part of these financial statements.

Table of Contents

SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(UNAUDITED)

| | Sirona Dental Systems, Inc. Shareholders | | | | | | | | | |
|---|--|--|----------------------------------|------------------------------|--|----------------------|--|--|-----------------------------|-------------------|
| | Common share capital | Number of common shares issued and outstanding | Additional paid-in capital | Treasury Stock \$ 000s | Excess of purchase price over predecessor basis (except for amount of common shares issued) | Retained earnings | Accumulated comprehensive other income/(loss) | Total Sirona Dental Systems, Inc. Shareholders | Noncontrolling Interests | Total |
| Balances as of September 30, 2011 | \$ 563 | 55,815,323 | \$ 685,617 | \$ (19,749) | (49,103) | \$ 303,639 | \$ 11,309 | \$ 932,276 | \$ 3,644 | \$ 935,920 |
| Issuance of common stock upon exercise of options | 2 | 161,836 | 1,664 | | | | | 1,666 | | 1,666 |
| Purchase of treasury stock (at cost) | | (371,070) | | (16,779) | | | | (16,779) | | (16,779) |
| Stock compensation | | | 4,290 | | | | | 4,290 | | 4,290 |
| Tax effect of stock options exercised and net effect of vesting of RSUs/PSUs | | | (753) | | | | | (753) | | (753) |
| Dividend distribution to noncontrolling interest | | | | | | | | | (1,689) | (1,689) |
| Comprehensive income | | | | | | 68,798 | (8,098) | 60,700 | 1,421 | 62,121 |
| Balances as of March 31, 2012 | \$ 565 | 55,606,089 | \$ 690,818 | \$ (36,528) | (49,103) | \$ 372,437 | \$ 3,211 | \$ 981,400 | \$ 3,376 | \$ 984,776 |
| Balances as of September 30, 2012 | \$ 566 | 55,051,673 | \$ 699,279 | \$ (69,058) | (49,103) | \$ 437,471 | \$ (29,797) | \$ 989,358 | \$ 3,017 | \$ 992,375 |
| Issuance of common stock upon exercise of options and net effect of vesting of RSUs/PSUs | 3 | 270,574 | 3,582 | | | | | 3,585 | | 3,585 |
| Purchase of treasury stock (at cost) | | (385,080) | | (23,868) | | | | (23,868) | | (23,868) |
| Stock compensation | | | 8,352 | | | | | 8,352 | | 8,352 |
| | | | (2,388) | | | | | (2,388) | | (2,388) |

Edgar Filing: SIRONA DENTAL SYSTEMS, INC. - Form 10-Q

| | | | | | | | | | | |
|--|---------------|-------------------|-------------------|--------------------|-----------------|-------------------|--------------------|---------------------|-----------------|---------------------|
| Tax effect of stock options exercised and net effect of vesting of RSUs/PSUs | | | | | | | | | | |
| Purchase of shares from noncontrolling interest | (584) | | | | | (584) | (802) | | (1,386) | |
| Dividend distribution to noncontrolling interest | | | | | | | (1,435) | | (1,435) | |
| Comprehensive income | | 69,960 | (6,623) | 63,337 | 1,061 | 64,398 | | | | |
| Balances as of | | | | | | | | | | |
| March 31, 2013 | \$ 569 | 54,937,167 | \$ 708,241 | \$ (92,926) | (49,103) | \$ 507,431 | \$ (36,420) | \$ 1,037,792 | \$ 1,841 | \$ 1,039,633 |

The accompanying notes are an integral part of these financial statements.

Table of Contents

SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

| | Six months ended March 31, | |
|---|-------------------------------|-----------------|
| | 2013 | 2012 |
| | \$ 000s | |
| Cash flows from operating activities | | |
| Net income | \$ 71,300 | \$ 70,025 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 36,457 | 38,460 |
| (Gain)/loss on disposal of property, plant and equipment | 93 | |
| (Gain)/loss on derivative instruments | 1,218 | (2,500) |
| (Gain)/loss on foreign currency transactions | 5,997 | 3,580 |
| Deferred income taxes | 5,374 | (8,147) |
| Amortization of debt issuance cost | 277 | 351 |
| Share-based compensation expense | 8,352 | 4,290 |
| Changes in assets and liabilities | | |
| Accounts receivable | 2,689 | (18,606) |
| Inventories | (25,333) | (8,262) |
| Prepaid expenses and other current assets | (6,902) | (6) |
| Restricted cash | (167) | 646 |
| Other non-current assets | (5) | (234) |
| Trade accounts payable | 16,118 | (5,431) |
| Accrued liabilities and deferred income | (24,252) | (16,932) |
| Other non-current liabilities | 2,386 | 522 |
| Income taxes receivable | 260 | 1,208 |
| Income taxes payable | (4,208) | 6,140 |
| Net cash provided by operating activities | 89,654 | 65,104 |
| Cash flows from investing activities | | |
| Investment in property, plant and equipment | (22,270) | (18,208) |
| Proceeds from sale of property, plant and equipment | 83 | |
| Prepayments for other assets | | (4,612) |
| Purchase of intangible assets | (39) | (72) |
| Acquisition of business, net of cash acquired | (35,019) | |
| Net cash used in investing activities | (57,245) | (22,892) |

The accompanying notes are an integral part of these financial statements.

Table of Contents

SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

| | Six months ended | |
|---|------------------|-----------|
| | 2013 | 2012 |
| | March 31, | |
| | \$ 000s | |
| Cash flows from financing activities | | |
| Repayments of short-term and long-term debt | (98) | (433,093) |
| Proceeds from borrowings | | 141,783 |
| Purchase of treasury stock | (23,868) | (16,779) |
| Debt issuance cost | | (2,765) |
| Purchase of shares from noncontrolling interest | (870) | |
| Dividend distributions to noncontrolling interest | (1,435) | (1,689) |
| Common shares issued under share based compensation plans | 3,582 | 1,664 |
| Tax effect of common shares issued under share based compensation plans | (3,290) | (1,067) |