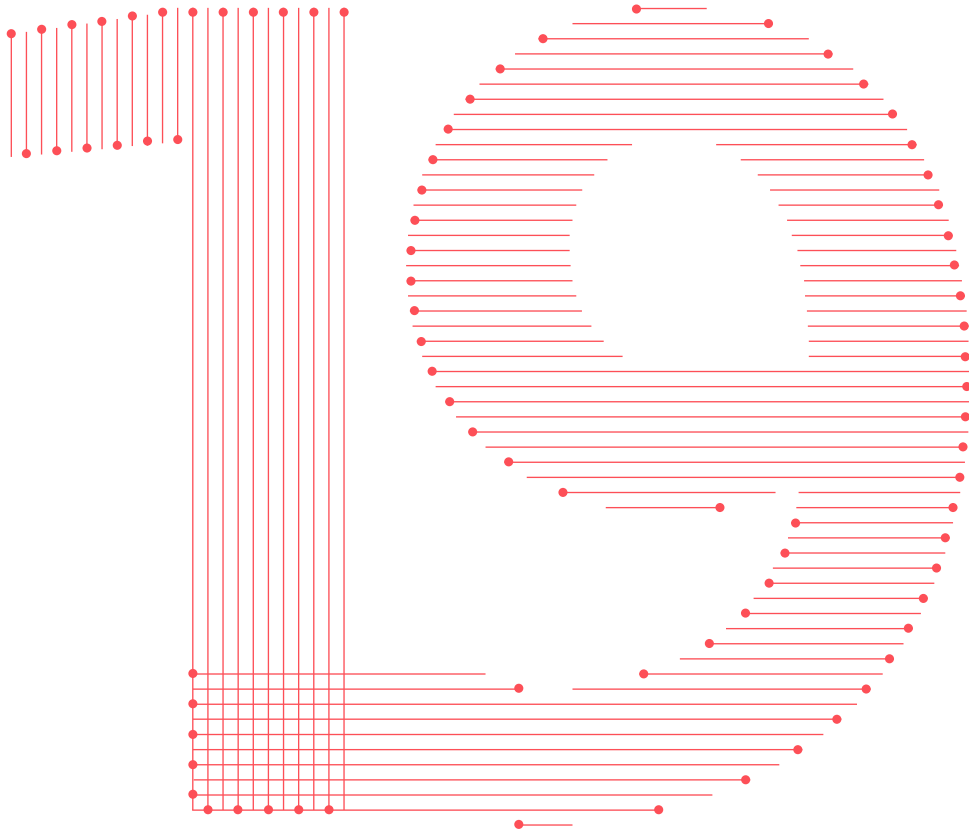


# Combined Forces

Half-Year Report 2019

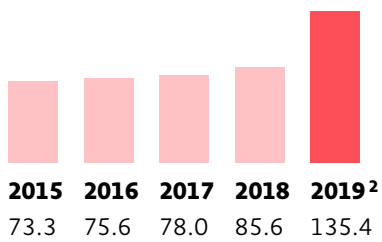


# Facts and Figures

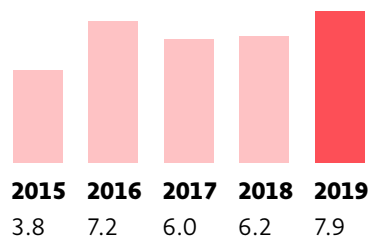
## 5-Year Overview of First-Half Results 2015-2019<sup>1</sup>

(in CHF million)

### Net Sales



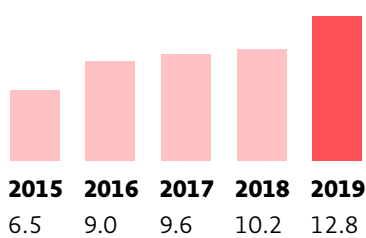
### Net Profit



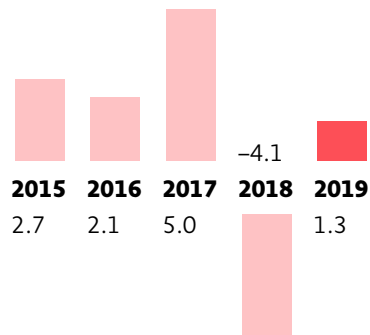
<sup>1</sup> H1 statements for 2015 to 2017 are based on IFRS; H1 statements for 2018 and 2019 are based on Swiss GAAP FER

<sup>2</sup> Sales from acquisitions: CHF 48.6 million

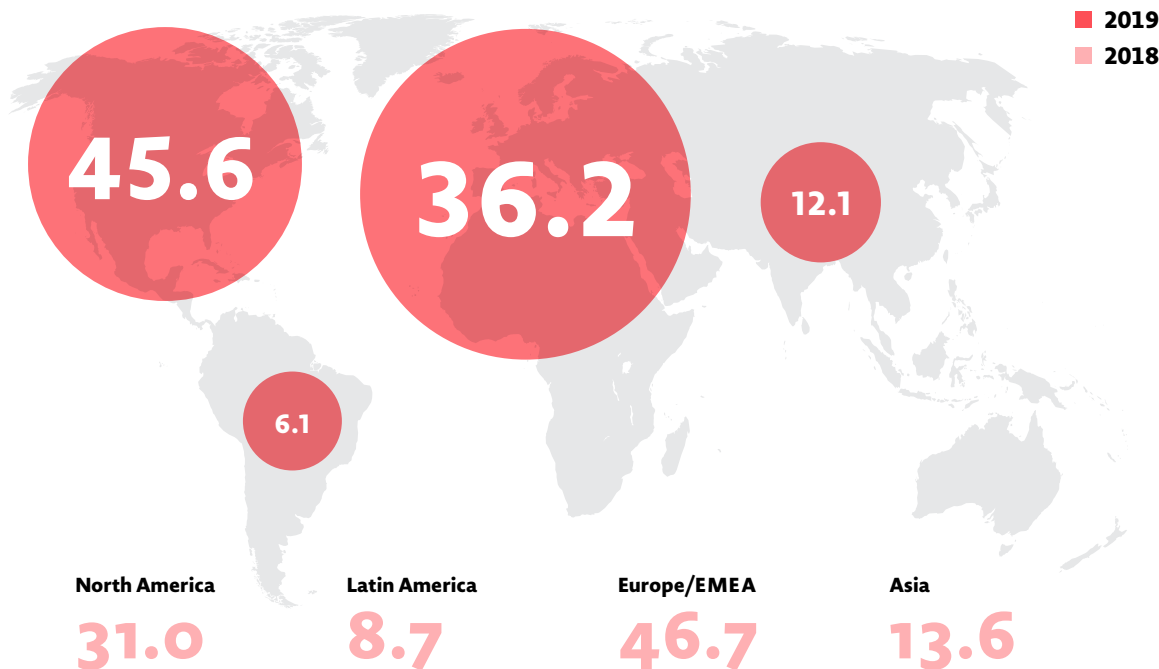
### EBIT



### Free Cash Flow



## H1 2019 Sales by Region in %



# Highlights H1 2019

## +58.2%

Sharp increase  
in sales

Acquisitions boost sales in every region.

## +24.9%

Increase in EBIT

Budgeted integration costs hold back EBIT growth.

## +62.7%

Above-average  
growth in China

COLTENE strengthened and expanded its  
position in the Chinese market.

## 41.3%

Efficient Treatment  
the largest  
product group

Comprehensive range of disposable dental supplies  
for dental practitioners is offered.

# Foreword

## Dear Shareholders,

COLTENE Group sustained its growth momentum during the first half of 2019. Besides the acquisition-driven surge in sales, COLTENE also achieved organic growth, thus strengthening its position in key regional markets and expanding it. The integration of Kenda, SciCan and Micro-Mega, the three dental firms acquired in 2018, is on track and underpinned the pleasing sales trend. Initial economies of scale and synergies were also captured as the process of merging all sales and marketing units got underway, along with Group-level harmonization of workflows and the introduction of standardized systems and data infrastructure.

COLTENE switched its accounting standards from IFRS to Swiss GAAP FER as of this year. Its financial statements for the first half of 2019 are the first to be prepared using the new accounting rules. All figures for the prior-year period have been restated to ensure the consistency and comparability of the financial information for these two half-year periods.

Acquisitions boosted reported sales for the first six months of 2019 to CHF 135.4 million (H1 2018: CHF 85.6 million, +58.2%). Organic sales growth in local currencies amounted to 2.0% and beat the overall market growth, which was flat. Structural market change and further consolidation among wholesale dental suppliers, who are increasingly embracing vertical integration by acquiring manufacturers of dental supplies and equipment, were observed over the period. COLTENE's EBIT margin for the seasonally weaker first half of the year came in at 9.4% (H1 2018: 12.0%). The year-on-year contraction is primarily attributable to integration-related costs for SciCan and Micro-Mega and the cost of compliance with stricter regulations.

Integration of Kenda, SciCan and Micro-Mega is on track and underpinned the pleasing sales trend.

### **Distinct Market Positioning**

By acquiring Kenda, SciCan and Micro-Mega, COLTENE has become a leading product developer and manufacturer in the market of dental consumables and equipment. Kenda added innovative and high-precision silicon polishing instruments to the Rotary Instruments product portfolio. Acquiring SciCan gave COLTENE a leadership position in the dental disinfection, sterilization and infection control business. Micro-Mega broadened the Group's range of endodontic products and transformed COLTENE into a major, pioneering endodontic specialist.

COLTENE arranged its product offering into three new product groups – Infection Control, Dental Preservation and Efficient Treatment – to sharpen its market profile. This new product portfolio structure was presented to sector experts for the first time at the IDS, the premier international trade fair for the dental industry, which took place in Cologne from March 12 to 16, 2019.

### **Change in the Executive Board**

After serving as the head of Research and Development, Quality Management and Regulatory Affairs for many years, Werner Mannschedel is approaching retirement and will therefore step down from the Executive Board at the end of September 2019. He will continue to offer COLTENE his services for special projects. The Board of Directors and the Executive Board thank Werner Mannschedel for his more than 30 years of service to the Company and his great contribution to the Company's success.

The Board of Directors and the Executive Board expect economies of scale, synergies and efficiency gains to be realized in the second half of 2019.

### **Outlook**

The Board of Directors and the Executive Board expect the ongoing integration of the new Group companies to produce economies of scale, synergies and efficiency gains during the second half of 2019. Ongoing expansion of the sales teams in key markets across Europe and Asia – China in particular – should enable the Group to capture market share and grow its sales faster than the underlying market, thereby strengthening its leadership position. In view of stricter regulations (introduction of the EU's new Medical Device Regulation or MDR) and outlays related to the integration of SciCan and Micro-Mega as well as other costs, operating profit and net profit for the full year are no longer expected to match the anticipated sales growth. COLTENE expects the EBIT margin to return to the 15% level in the medium term.

On behalf of the Board of Directors and the Executive Board, we thank all employees for their hard work and dedication. We also thank our business partners and our shareholders for the trust they have placed in COLTENE Group.

Yours sincerely,

Nick Huber  
Chairman of the Board of Directors

Martin Schaufelberger  
CEO



# Combined Forces

COLTENE's groundbreaking acquisitions of Kenda, SciCan and Micro-Mega have clearly strengthened its position as a leading manufacturer and developer of dental consumables and equipment. Joining forces has created promising growth opportunities for the Group. Its larger size creates economies of scale and enhances the reach and pull of its umbrella brand COLTENE in a market distinguished by consolidation and intense competition. COLTENE's leadership position is most pronounced in the fields of dental preservation and infection control. Thanks to its combined resources, COLTENE is also in a better position to comply with increasingly strict regulations.

Sharing existing sales channels creates synergy potential, as does Group-wide harmonization and optimization of workflows and the introduction of standardized systems and data infrastructure. Initial improvements were already evident in the results for the first half of 2019. Management expects these positive effects to become more visible in view of the ongoing integration of the new Group companies.

## COLTENE's Strategic Priorities for 2019–2021 Are Outlined Below:

### Endodontics

Intensify sales efforts in the Dental Preservation product group by creating Group-level multidisciplinary teams of specialists and introducing tiered pricing models based on customer needs

- **Establish sales teams with endodontics specialists for selected markets**
- **Adapt the product portfolio to meet the needs of different target customers**
- **Position the Hyflex and Micro-Mega instruments for different applications**
- **Add COLTENE products to Micro-Mega's product range**

### Infection Control

Selective positioning of all product groups and brands based on targeted users and concurrent review of the product R&D roadmap

- **Tailor the positioning of ultrasonic cleaners, instrument washing systems and comprehensive solutions to specific customer needs**
- **Future-ready alignment of the product roadmap**
- **Update instrument reprocessing guideline**
- **Advance the strategic development of the BioSonic and OPTIM range of surface cleaning, sterilization and disinfection products**

### Marketing

Group-level rollout of COLTENE umbrella brand with a uniform corporate identity while retaining product brands that have a strong local/regional presence

- **Implement the Group-wide COLTENE umbrella brand strategy while boosting brand consonance world-wide**
- **Optimize the allocation of resources and capital for trade shows and marketing activities**
- **Establish a university partnership program and organize a global COLTENE Key Opinion Leader Seminar**

### Sales

Merge the entire Group's distribution resources into a single global distribution organization that can identify and exploit cross-selling opportunities and create standardized training tools and modules

- **Establish a global sales organization with a country and customer segmentation**
- **Share existing sales channels: for example, sell the UC 150 ultrasound cleaner through SciCan channels; sell OPTIM and Micro-Mega products through COLTENE channels**
- **Create new market access points for SciCan through COLTENE**
- **Create new training tools and modules for the sales teams**

### Synergies

Capitalize on the promising new growth opportunities that come with the Group's much greater market reach and the new economies of scale

- **Steadily build up powerful, global marketing and sales structures**
- **Strengthen market positions, especially in endodontics and infection control**
- **Spread the costs of digitalization projects in marketing across the entire organization**
- **Achieve Group-wide compliance with increasingly strict regulations for medical equipment and devices**

# Operational Review and Financial Commentary

**COLTENE Group strengthened its market leadership during the first half of 2019 and the integration of the three companies acquired last year, Kenda, SciCan and Micro-Mega, proceeded as planned. Integration activity centered on merging the sales and marketing units, harmonizing Group-level workflows and processes and introducing standardized systems and data infrastructure at the new Group companies. Business during the first half was particularly pleasing in North America, China and in several European and Middle Eastern countries.**

COLTENE Group switched its accounting standard from IFRS to Swiss GAAP FER as of the current fiscal year and the figures from the prior-year period were restated to ensure consistency and comparability. The effects of this restatement on the balance sheet, income statement and shareholders' equity are explained in the notes to the financial statements for H1 2019 on pages 18 to 19.

COLTENE's sales for the first six months of 2019 amounted to CHF 135.4 million (H1 2018: CHF 85.6 million), which represents a y-o-y increase of 58.2% in its reporting currency of Swiss francs. Early in January of 2018, COLTENE acquired Kenda AG, a specialist manufacturer of silicon carbide polishers based in Vaduz, Liechtenstein. In October 2018, COLTENE acquired the SciCan Group, a specialist manufacturer of disinfection systems and infection control products headquartered in Toronto, Canada, and DentalDrives GmbH, the holding company of Micro-Mega SA, a manufacturer of endodontic instruments based in Besançon, France. These acquisitions increased the new COLTENE Group's sales for the first half of 2019 by CHF 48.6 million or 56.8%. COLTENE Group achieved organic sales growth of 1.4% amid a stagnant market. In local currencies, the organic sales growth reached 2.0%. Higher import tariffs in some markets and product registration hurdles had a negative impact on sales.

**COLTENE Group achieved organic sales growth in local currencies of 2.0% despite market stagnation.**



Operating profit (EBIT) for the first half of 2019 amounted to CHF 12.8 million, which is 24.9% above the year-ago figure (H1 2018: CHF 10.2 million) and attributable to the acquisition-led sales growth as well as strict cost management. The EBIT margin in the seasonally weaker first half of the year reached 9.4% (H1 2018: 12.0%). Costs in the first half were inflated by the introduction of a Product Life Cycle Management (PLM) tool, the recruitment of additional Regulatory Affairs staff and the integration of SciCan and Micro-Mega. The first-time consolidation of the acquired companies also entailed a one-time, non-cash charge of CHF 0.8 million.

The EBIT margin in the seasonally weaker first half of the year reached 9.4% (H1 2018: 12.0%).

Net profit for the first half of 2019 amounted to CHF 7.9 million (H1 2018: CHF 6.2 million). This corresponds to a net profit margin of 5.9% (H1 2018: 7.2%).

The gross profit margin declined to 68.1% because of the aforementioned acquisition effects (H1 2018: 73.6%). The net financial result was a negative CHF 1.9 million (H1 2018: CHF 1.8 million). This is attributable to slightly higher funding requirements as a result of the acquisitions. The tax rate receded from 27.3% to 26.8%.

Cash flow from operations increased from CHF 8.1 million in the prior-year period to CHF 8.6 million, which reflects the increase in net profit. Cash flow from investment activities amounted to CHF -7.3 million (H1 2018: CHF -12.2 million). Previous year's figure included the acquisition of Kenda AG. There was a corresponding improvement in free cash flow, from CHF -4.1 million in the prior-year period to CHF +1.3 million for the first half of 2019.

The balance sheet remains solid after the change in accounting standards from IFRS to Swiss GAAP FER. Gross bank borrowings amounted to CHF 66.3 million, current assets amounted to CHF 20.5 million. COLTENE Group's net debt as of June 30, 2019, amounted to CHF 45.8 million, up from CHF 29.2 million at the end of December 2018. This increase is attributable to the external financing of acquisitions. The equity ratio at the mid-year mark stood at 42.6%, compared to 47.4% at year-end 2018. This decline is mainly the result of the capital distributed to shareholders from capital contribution reserves during the period under review.

### **Integration of Kenda, SciCan and Micro-Mega Proceeding as Planned**

Immediately after closing the SciCan and Micro-Mega acquisitions in October 2018, COLTENE management set up several multidisciplinary project groups consisting of representatives from the different sites who were then tasked with integrating the new companies and exploiting synergy potential. Attention focused primarily on merging the various marketing and sales organizations and giving each company access to all of the new Group's distribution channels, with the aim of significantly broadening the sales channels for products that were strongly anchored in their traditional home markets and accelerating the growth of the enlarged dental group. Cross-selling opportunities for SciCan products and the integration of Micro-Mega products into COLTENE's existing sales channels were prioritized during this phase. Efforts were also made to strengthen the Group's identity and profile under the COLTENE umbrella brand and to harmonize Group-level workflows and processes and to introduce standardized systems and data infrastructure such as SAP and PIM platforms at the new Group companies. A new Enterprise Resource Planning (ERP) system is improving operational planning, Group-wide convergence efforts and the general allocation of resources while a new Product Information Management (PIM) system is helping the marketing and sales organizations to implement an optimal and consistent global approach.

Group-wide integration projects centered on the coalescence of the sales and marketing units.

In the wake of the acquisitions COLTENE recruited more specialists for its Regulatory Affairs unit and harmonized its R&D processes and documentation. The Group is now in an even better position to ensure timely compliance with increasingly strict regulatory requirements around the world. Pooled expertise, workflow improvements and the introduction of a comprehensive Product Life Cycle Management (PLM) system will additionally enable COLTENE to introduce new products and treatment methods to the market more quickly and efficiently and thus address the needs of dentists more quickly as well.

### **Joining Forces at the IDS**

This year's IDS was a milestone for COLTENE. The IDS is the premier trade show for the dental industry and it took place in Cologne from March 12 to 16. It was the first time that COLTENE, SciCan and Micro-Mega appeared side by side. The joint appearance was ideal for showcasing COLTENE's new product groups – Infection Control, Dental Preservation and Efficient Treatment – to a large audience of potential customers. The combined product portfolios of COLTENE, Kenda, SciCan and Micro-Mega attracted considerable interest and confirmed the marketing and sales synergies that have been created by these recent acquisitions.

### **New Products in Every Product Group**

Attention was drawn to the latest product launches. In Infection Control, COLTENE presented its new BioSonic WIPEOUT product. These ready-to-use disinfectant wipes are made of premium material and can be used to clean and disinfect every surface in dental offices. In Dental Preservation, COLTENE presented its new BRILLIANT COMPONEER composite enamel shells, which ensure long-lasting gloss and optimal results in anterior restorations thanks to improved veneering technology, and its reinforced BRILLIANT Crios Disc composite that is applicable with CAD-CAM systems and used to fabricate crowns, inlays and onlays in dental laboratories. In the Efficient Treatment product group, COLTENE launched Gelatamp forte, a new gelatin sponge whose surface roughness and high porosity ensure effective hemostasis in oral surgery.

In Infection Control, COLTENE is expanding the services it offers and improving the digital connectivity of its product portfolio, the first example of which is STATCLAVE from SciCan. Scheduled for launch in the second half of 2019, this autoclave will send cycle data, maintenance notifications and other information to users' computers and smartphones. In Dental Preservation, COLTENE and Micro-Mega are pooling their product design, clinical application and materials science know-how to develop innovative new products such as One Curve.

### **Investments in Workflow Improvements and Workplace Safety**

COLTENE invested in efficiency improvements and occupational safety at all major sites. At the headquarters in Altstaetten, various production facilities were replaced in connection with the new production building and the climatic conditions in the composite production were improved.

At the plant in Cuyahoga Falls, USA, and at SciCan's headquarters in Toronto, various new production facilities were put into operation to further optimize product quality.

Acquiring the SciCan Group has made North America COLTENE's largest, most important sales region.

### **North America is Clearly COLTENE's Largest Market**

The acquisition of SciCan Group has made North America COLTENE's largest, most important sales region. Sales generated in North America in the first half more than doubled to CHF 61.9 million. Sales in the EMEA region (Europe, Middle East and Africa) amounted to CHF 49.0 million, which primarily reflects the acquisition of Micro-Mega. EMEA now ranks as the Company's second-most important regional market. Group sales in Asia amounted to CHF 16.3 million. Here, too, acquisitions helped to lift the top line, but COLTENE product sales also contributed to the growth and were up by 20.1% in China alone. This fast growth is an indication of how attractive the Chinese market is for premium dental consumables and materials. In Latin America, where SciCan and Micro-Mega are not yet active, the Group increased its sales in the first half by 9.9% to CHF 8.2 million despite local currency weakness. Sales in emerging markets rose by 24.7%.

Efficient Treatment is the largest product group, accounting for 41.3% of consolidated sales.

The regional sales mix for the first half of the year is as follows: 36.2% of total sales stemmed from the EMEA region, which represents Europe, the Middle East and Africa (H1 2018: 46.7%), 45.6% from North America (H1 2018: 31.0%), 12.1% from Asia (H1 2018: 13.6%) and 6.1% from Latin America (H1 2018: 8.7%).

### **Efficient Treatment is the Largest Product Group**

With total sales of CHF 55.9 million (share of Group sales: 41.3%), Efficient Treatment is the largest product group, followed by Dental Preservation (31.8%), which accounted for CHF 43.1 million of consolidated sales. The third product group is Infection Control (26.9%), which generated sales of CHF 36.4 million.



# Consolidated Income Statement

In CHF 1000 (unaudited)	Ref.	1 HY 2019	1 HY 2018 (restated)
<b>Net sales</b>	<b>3</b>	<b>135 391</b>	<b>85 604</b>
Other operating income		8	1
Changes in inventories of finished goods and work in progress		-324	922
Raw material and consumables used		-42 808	-23 529
Personnel expenses		-50 285	-32 347
Other operating expenses		-25 964	-17 667
Depreciation on tangible fixed assets		-2 781	-2 305
Amortization on intangible assets		-445	-434
<b>Operating profit (EBIT)</b>		<b>12 792</b>	<b>10 245</b>
Financial income and expenses		-1 944	-1 771
<b>Net profit before tax</b>		<b>10 848</b>	<b>8 474</b>
Income taxes	4	-2 910	-2 311
<b>Net profit for the period</b>		<b>7 938</b>	<b>6 163</b>
Earnings per share		CHF 1.33	CHF 1.46
Diluted earnings per share		CHF 1.33	CHF 1.46

The consolidated financial statements have been prepared in accordance with Swiss GAAP FER.  
 Prior-year figures have been adjusted accordingly (see Adjustments Due to the First Time Application of Swiss GAAP FER on page 18 the following).  
 The notes are part of COLTENE Group financial statements.

# Consolidated Balance Sheet

<b>In CHF 1000 (unaudited)</b>	<b>Ref.</b>	<b>06/30/2019</b>	<b>12/31/2018 (restated)</b>
Cash and cash equivalents		20 482	20 901
Trade accounts receivable		49 524	52 466
Prepaid expenses and deferred income		2 279	2 816
Other short-term receivables		4 611	5 409
Inventories		56 556	55 553
<b>Current assets</b>		<b>133 452</b>	<b>137 145</b>
Tangible fixed assets	6	45 521	42 452
Financial assets		394	391
Intangible assets		4 065	3 952
Deferred tax assets	5	1 534	1 609
<b>Non-current assets</b>		<b>51 514</b>	<b>48 404</b>
<b>Total assets</b>		<b>184 966</b>	<b>185 549</b>
Short-term financial liabilities		65 415	44 991
Trade accounts payable		9 273	8 529
Other short-term liabilities		9 897	18 047
Short-term provisions		892	836
Accrued liabilities and deferred income		13 574	13 988
<b>Current liabilities</b>		<b>99 051</b>	<b>86 391</b>
Long-term financial liabilities		916	5 069
Deferred tax liabilities	5	3 849	3 844
Long-term provisions		2 413	2 376
<b>Non-current liabilities</b>		<b>7 178</b>	<b>11 289</b>
<b>Total liabilities</b>		<b>106 229</b>	<b>97 680</b>
Share capital		598	598
Capital reserves		162 359	180 283
Treasury shares		-1	-303
Retained earnings		-84 219	-92 709
<b>Total equity</b>	<b>9</b>	<b>78 737</b>	<b>87 869</b>
<b>Total liabilities and equity</b>		<b>184 966</b>	<b>185 549</b>

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# Consolidated Cash Flow Statement

In CHF 1000 (unaudited)	Ref.	1 HY 2019	1 HY 2018 (restated)
Net profit for the period		7 938	6 163
Depreciation of tangible fixed assets and amortization of intangible assets		3 226	2 739
Change in provisions not affecting the fund		129	55
Other expenses and income not affecting the fund		4 118	2 693
Change in trade accounts receivable		3 064	4 517
Change in inventories		-862	-3 431
Change of other short-term receivables, prepaid expenses and deferred income		2 100	-637
Change in trade accounts payable		782	192
Change in other short-term liabilities, accrued liabilities and deferred income		-6 381	-128
Interest paid		-434	-137
Interest received		17	15
Income tax paid		-5 108	-3 949
<b>Cash flow from operating activities</b>		<b>8 589</b>	<b>8 092</b>
Purchase of tangible fixed assets		-7 157	-4 232
Proceeds from sale of tangible fixed assets		26	2
Purchase of intangible assets		-209	-176
Proceeds from sale of financial assets		66	-8
Acquisition of subsidiaries (net of cash)		0	-7 773
<b>Cash flow from investing activities</b>		<b>-7 274</b>	<b>-12 187</b>
Proceeds/Repayments of short-term financial liabilities		19 905	4 456
Proceeds/Repayments of long-term financial liabilities		-3 949	0
Dividends to shareholders	9	-17 924	-12 654
Proceeds/purchase of treasury shares	9	302	-6
<b>Cash flow from financing activities</b>		<b>-1 666</b>	<b>-8 204</b>
Effect of exchange rate changes on cash		-68	-40
<b>Change in cash and cash equivalents</b>		<b>-419</b>	<b>-12 339</b>
Cash and cash equivalents at beginning of year		20 901	22 040
Cash and cash equivalents at end of half-year		20 482	9 701

The consolidated financial statements have been prepared in accordance with Swiss GAAP FER.  
 Prior-year figures have been adjusted accordingly (see Adjustments Due to the First Time Application of Swiss GAAP FER on page 18 the following).  
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# Consolidated Statement of Changes in Equity

In CHF 1000 (unaudited)		Share	Capital	Treasury	Currency	Goodwill	Retained	Total of	Total
	Ref.	capital	reserves (Agio)	shares	translation adjustments	(offset)	earnings	retained earnings	equity
<b>31.12.2017 according to IFRS</b>		<b>422</b>	<b>0</b>	<b>0</b>	<b>-31 533</b>	<b>0</b>	<b>152 816</b>	<b>121 283</b>	<b>121 705</b>
Effect of conversion to FER		0	0	0	31 533	-39 763	-21 377	-29 607	-29 607
<b>01.01.2018 according to FER<sup>1</sup></b>		<b>422</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-39 763</b>	<b>131 439</b>	<b>91 676</b>	<b>92 098</b>
Net profit of the period		0	0	0	0	0	6 163	6 163	6 163
Acquisition of treasury shares		0	0	282	0	0	0	0	282
Disposal of treasury shares		0	0	-288	0	0	0	0	-288
Dividends (profit distribution)	9	0	0	0	0	0	-12 654	-12 654	-12 654
Foreign currency differences		0	0	0	533	0	0	533	533
Goodwill offset	8	0	0	0	0	-5 906	0	-5 906	-5 906
<b>30.06.2018 according to FER</b>		<b>422</b>	<b>0</b>	<b>-6</b>	<b>533</b>	<b>-45 669</b>	<b>124 948</b>	<b>79 812</b>	<b>80 228</b>
Movements 01.07.-31.12.2018		176	180 283	-297	-40 181	45 669	30 292	35 780	215 942
<b>31.12.2018 according to IFRS</b>		<b>598</b>	<b>180 283</b>	<b>-303</b>	<b>-39 648</b>	<b>0</b>	<b>155 240</b>	<b>115 592</b>	<b>296 170</b>
Effect of conversion to FER		0	0	0	39 533	-228 380	-19 454	-208 301	-208 301
<b>01.01.2019 according to FER<sup>1</sup></b>		<b>598</b>	<b>180 283</b>	<b>-303</b>	<b>-115</b>	<b>-228 380</b>	<b>135 786</b>	<b>-92 709</b>	<b>87 869</b>
Net profit of the period		0	0	0	0	0	7 938	7 938	7 938
Acquisition of treasury shares		0	0	-8	0	0	0	0	-8
Disposal of treasury shares		0	0	310	0	0	0	0	310
Dividends	9	0	-17 924	0	0	0	0	0	-17 924
Foreign currency differences		0	0	0	552	0	0	552	552
Goodwill offset	8	0	0	0	0	0	0	0	0
<b>30.06.2019 according to FER</b>		<b>598</b>	<b>162 359</b>	<b>-1</b>	<b>437</b>	<b>-228 380</b>	<b>143 724</b>	<b>-84 219</b>	<b>78 737</b>

<sup>1</sup> Restated

The consolidated financial statements have been prepared in accordance with Swiss GAAP FER.

Prior-year figures have been adjusted accordingly (see Adjustments Due to the First Time Application of Swiss GAAP FER on page 18 the following).

The notes are part of COLTENE Group financial statements.

# Selected Notes

COLTENE Holding AG – the holding company of the COLTENE Group (“the Group”) – is a stock corporation pursuant to the Swiss Code of Obligations. The Company’s legal domicile is in Altstätten, Switzerland. COLTENE Holding AG was founded in accordance with Swiss company law on December 15, 2005.

Under its umbrella brand COLTENE, the Group develops, manufactures, and sells mainly via distribution channels a broad and comprehensive range of disposables, tools and equipment for dentists and dental laboratories. The Group operates one segment defined in line with the management structure, the organizational set up, the reporting and allocation of resources. Internal and external reporting are aligned.

## 1 Accounting Policies

This unaudited half-year report was approved for publication by the Board of Directors on August 16, 2019.

The consolidated half-year report was prepared in accordance with Swiss GAAP FER 31 “Complementary Recommendation for Listed Public Companies”.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at December 31, 2018.

Until December 31, 2018, COLTENE had prepared its interim and annual financial statements in accordance with IFRS (International Financial Reporting Standards). With the exception of the items mentioned in the next chapter, however, the accounting principles used to prepare the interim financial statements are consistent with the accounting principles that also form the basis for the consolidated annual statements for the year ended December 31, 2018.

### Adjustments Due to the First Time Application of Swiss GAAP FER

As disclosed in the Annual Report 2018, the Board of Directors decided to change the accounting framework from IFRS to Swiss GAAP FER as of January 1, 2019. With the switch to Swiss GAAP FER, COLTENE is adopting an accounting and reporting standard whose

informative value is comparable with that of IFRS and which is more congruent with the needs of an internationally active, mid-sized company. The reasons for the Company’s decision to switch to Swiss GAAP FER are the increasing complexity of IFRS and the related, constantly growing requirements. They entail high administrative costs for small and mid-sized companies listed on the stock market.

The half-year report 2019 was prepared for the first time in accordance with the guidelines of Swiss GAAP FER. Prior period figures have been restated to conform to the presentation for the reporting period to ensure comparability.

The accounting and valuation principles applied for the preparation and presentation of financial statements in accordance with Swiss GAAP FER differ from the financial statements 2018, prepared in accordance with IFRS, as detailed below:

- Goodwill from acquisitions is directly offset, as at the acquisition date, with retained earnings in equity in accordance with the allowed treatment under Swiss GAAP FER 30. Under IFRS, goodwill was capitalized and not amortized; goodwill was tested for impairment annually. In addition under IFRS, all identifiable intangible assets have been valued and capitalized at the acquisition date. Under Swiss GAAP FER any unrecognized intangible assets as per acquisition are not separated and identified and therefore allocated to goodwill. Under Swiss GAAP FER, transaction costs incurred in connection with acquisitions are treated as part of acquisition costs. Under IFRS transaction costs were booked to the income statement.
- For Swiss pension plans an economic obligation or a benefit is determined in accordance with Swiss GAAP FER 16 from the financial statements of the pension plan made on the basis of Swiss GAAP FER 26. The economic impact from pension plans of foreign subsidiaries is determined in accordance with the valuation methods applied in the respective country. Under IFRS, defined benefit plans were calculated in accordance with the projected-unit credit-method and recognized in accordance with IAS 19.

- The stated valuation and balance sheet adjustments have consequences for deferred income taxes in the balance sheet and income statement.
- Accumulated translation differences recognized in equity are offset with retained earnings at the date of conversion.
- Under Swiss GAAP FER, significant receivables are valued individually, the remaining receivables are valued using a flat rate. Under IFRS, the Expected Credit Loss method was applied.

The presentation and structure of balance sheet, income statement, statement of equity and cash flow statement have been adjusted to meet the requirements of Swiss GAAP FER.

The effects of the above stated adjustments on equity and net profit are shown in the following tables:

#### Adjustments to equity

In CHF 1000

	01.01.2018	30.06.2018	31.12.2018
<b>Equity according to IFRS</b>	<b>121 705</b>	<b>116 023</b>	<b>296 170</b>
Offset expected credit loss effect	0	0	95
Offset goodwill from acquisitions	- 39 763	-42 462	-172 768
Offset acquired intangible assets for trademarks, technology and customer relations	0	-2 868	-58 139
Adjustment pension assets and liabilities	6 378	5 204	5 737
Deferred tax assets and liabilities <sup>1</sup>	3 778	4 331	16 774
<b>Equity according to Swiss GAAP FER (restated)</b>	<b>92 098</b>	<b>80 228</b>	<b>87 869</b>

<sup>1</sup> Deferred tax assets and liabilities include deferred taxes on goodwill from acquisitions, acquired intangible assets for trademarks, technology and customer relations and pension assets and liabilities.

#### Adjustments to net profit

In CHF 1000

	January–December 2018	January–June 2018
<b>Net profit according to IFRS</b>	<b>14 911</b>	<b>6 921</b>
Adjustment write-off trade accounts receivable	95	0
Adjustment amortization-acquired intangible assets for trademarks, technology and customer relations	1 591	151
Adjustment personnel expense and income	-1 514	-1 405
Adjustment transaction costs from acquisitions	1 525	232
Deferred income taxes	393	264
<b>Net profit according to Swiss GAAP FER (restated)</b>	<b>17 001</b>	<b>6 163</b>

## 2 Currency Exchange Rates

### The most important exchange rates

	31.12.2017	30.06.2018	1 HY 2018
1 USD	0.9757	0.9877	0.9710
1 EUR	1.1702	1.1592	1.1686
1 CAD	n/a	n/a	n/a
	31.12.2018	30.06.2019	1 HY 2019
1 USD	0.9842	0.9758	0.9998
1 EUR	1.1269	1.1105	1.1295
1 CAD	0.7221	0.7457	0.7496

## 3 Net Sales

The net sales are disaggregated by geographic areas (determined by site of customer) and by products and services are as follows:

### Net sales by geographical regions

In CHF 1000	1 HY 2019	1 HY 2018
EMEA	48 972	39 978
North America	61 911	26 521
Latin America	8 193	7 457
Asia/Oceania	16 315	11 648
<b>Net sales</b>	<b>135 391</b>	<b>85 604</b>

### Net sales by products and services

In CHF 1000	1 HY 2019	1 HY 2018
Infection Control	36 400	4 806
Dental Preservation	43 091	38 735
Efficient Treatment	55 900	42 063
<b>Net sales</b>	<b>135 391</b>	<b>85 604</b>

In accordance with Swiss GAAP FER 31, the COLTENE Group has decided not to disclose detailed segment information. The disclosure of segment results would lead to considerable competitive disadvantages. COLTENE justifies its decision based on the following considerations:

- The main competitors of the COLTENE Group do not disclose segment results because they are either non-public companies or the dental businesses of large public companies are far too small for the disclosure of their sales or results. COLTENE would be the only player on the market providing such detailed information.
- The disclosure of segment information of the COLTENE Group would provide detailed information on margins, profitability of product groups etc.
- Disclosing segment information would also provide information on product cost structures and pricing to competitors.

The dental consumables business of the COLTENE Group has a historically seasonal pattern. Slightly higher revenues and operating profits in local currencies are usually expected in the second half of the year. This is due to slightly stronger average monthly sales in the last quarter of the year because the customers tend to achieve their annual sales targets with COLTENE as a vendor.

## 4 Tax Expenses

Tax expenses of TCHF 2910 represent a tax rate of 26.8% (prior year 27.3%) of the profit before tax expenses.

## 5 Deferred Taxes

On May 19, 2019, Swiss voters have approved the Federal Act on Tax Reform and AHV Financing (TRAF) which will enter into force on January 1, 2020. The tax reform provides for an abolishment of the privileged tax regimes on cantonal level. At the same time, certain cantons have already decided to reduce their corporate income tax rate and other cantons will decide about a reduction of the corporate income tax in the second half year 2019.

The effect of the reduction of the tax rate after the final acceptance of the Corporate Tax Reform in the Canton of St. Gallen in 2019 is not material for the half-year results 2019 of the COLTENE Group. Due to the seasonality of the business of the COLTENE Group, the effect of the tax rate reduction is almost completely compensated by lower amounts of the accounts receivable and inventory balances at June 30, 2019, compared to the respective balances at December 31, 2018.

## 6 Property, Plant and Equipment

The COLTENE Group was constructing a new production and office building. The total investment amount is around CHF 12.0 million, of which CHF 3.5 million was capitalized in the first half of the current year.

## 7 Changes in the Scope of Consolidation and Other Changes

### Kenda AG, Vaduz (FL)

On January 1, 2018, COLTENE Holding AG acquired 100% of the issued share capital of KENDA AG, an unlisted company headquartered in Vaduz, Liechtenstein. KENDA AG is a specialized, internationally active manufacturer of silicone polishing instruments for dentists. The acquisition has enhanced the Group's Rotary Instruments product portfolio, technology know-how and sales flows.

At the time of acquisition the values of net assets according to Swiss GAAP FER were as follows:

In CHF 1000	Fair value recognized on acquisition (restated)
Cash and cash equivalents	1 376
Trade accounts receivable	141
Other receivables and prepaid expenses	45
Inventories	1 768
<b>Current assets</b>	<b>3 330</b>
Property, plant, and equipment	570
Intangible assets	0
<b>Non-current assets</b>	<b>570</b>
<b>Total assets</b>	<b>3 900</b>
Trade accounts payable	56
Other accounts payable and accruals	187
Tax liabilities	79
<b>Current liabilities</b>	<b>322</b>
Deferred tax liabilities	103
Provisions	0
<b>Non-current liabilities</b>	<b>103</b>
<b>Total liabilities</b>	<b>425</b>
<b>Total identifiable net assets at fair value</b>	<b>3 475</b>
Goodwill arising on acquisition	5 906
<b>Purchase consideration transferred<sup>1</sup></b>	<b>9 381</b>
<b>Analysis of cash flow on acquisition</b>	
Net cash acquired with the subsidiary	1 376
Cash paid	-9 149
<b>Net cash flow on acquisition</b>	<b>-7 773</b>

<sup>1</sup> Including transaction costs of TCHF 232 (paid)

The goodwill from the acquisition of Kenda, which was offset with equity, is CHF 5.9 million.

### SciCan Ltd., Toronto (CA), and DentalDrives GmbH, Leutkirch (D)

On October 9, 2018, COLTENE Holding AG acquired 100% of the issued share capital of SciCan Ltd. and DentalDrives GmbH, both unlisted companies headquartered in Toronto, Canada, resp. Leutkirch, Germany.

At the time of acquisition the values of net assets according to Swiss GAAP FER were as follows:

In CHF 1000	Fair value recognized on acquisition
Cash and cash equivalents	5 039
Trade accounts receivable	13 901
Other receivables and prepaid expenses	3 183
Inventories	28 486
<b>Current assets</b>	<b>50 609</b>
Property, plant, and equipment	6 177
Intangible assets	864
Deferred tax assets	1 039
<b>Non-current assets</b>	<b>8 080</b>
<b>Total assets</b>	<b>58 689</b>
Trade accounts payable	3 148
Other accounts payable and accruals	9 373
Tax liabilities	950
Provisions	513
<b>Current liabilities</b>	<b>13 984</b>
Deferred tax liabilities	2 191
Financial liabilities	6 733
Provisions	1 000
<b>Non-current liabilities</b>	<b>9 924</b>
<b>Total liabilities</b>	<b>23 908</b>
<b>Total identifiable net assets at fair value</b>	<b>34 781</b>
Goodwill arising on acquisition	182 711
<b>Purchase consideration transferred<sup>1</sup></b>	<b>217 492</b>
<b>Analysis of purchase consideration on acquisition</b>	
Cash paid	100 215
Ordinary shares issued	112 484
Accrued consideration	3 500
<b>Total purchase consideration</b>	<b>216 199</b>
<b>Analysis of cash flow on acquisition</b>	
Net cash acquired with the subsidiary	5 039
Cash paid	-100 215
<b>Net cash flow on acquisition</b>	<b>-95 176</b>

<sup>1</sup> Including transaction costs of TCHF 1293 (paid)

The goodwill from this acquisition was offset with equity in the amount of CHF 182.7 million.

The goodwill is primarily attributed to the expected synergies and other benefits from combining the assets and activities of SciCan Group and DentalDrives Group with those of the Group.

On June 25, 2018, COLTENE Holding AG had signed an agreement to acquire the two companies, SciCan Ltd. (cleaning and sterilization equipment) and Dental-Drives GmbH, Leutkirch, Germany, with its main subsidiary Micro-Mega S.à.r.l., Besançon, France (endodontic files), and their affiliates, with strong positions in the dental market. They were independent companies controlled by the same owners and generated total sales revenues of about CAD 128 million (CHF 97 million) in 2017 with a workforce of about 410 employees. The transaction was subject to closing conditions including the proceeds of the necessary bank financing, the approval from the shareholders of COLTENE Holding AG to the proposed capital increases, the listing of the buyer consideration shares, and the approval of SIX Swiss Exchange to the listing of the buyer consideration shares. The closing of this transaction took place in the fourth quarter of 2018.

The purchase consideration for the acquisition of SciCan and Micro-Mega in the amount of CHF 216.2 million was financed with a net increase of CHF 180.5 million in equity (issue of new shares) and bank loans of CHF 35.7 million. The purchase consideration was amongst other subject to net debt and net working capital adjustments.

There were no events between June 30, 2019, and August 22, 2019, that would require an adjustment to the carrying amounts of assets and liabilities or need to be disclosed under this heading.

As of June 30, 2019, the Group consolidation structure comprised 24 legal entities (December 31, 2018: 24).

## 8 Theoretical Goodwill

The goodwill of a purchased consolidated company is offset with equity at the date of the acquisition. The theoretical amortization period of the goodwill corresponds to its useful life of five years. A theoretical capitalization of the goodwill would have the following impact on the consolidated financial statements:

<b>Theoretical goodwill</b>		
<b>In CHF 1000</b>	<b>2019</b>	<b>2018</b>
<b>Value as of 01.01.</b>	<b>220 376</b>	<b>39 763</b>
Additions from acquisitions <sup>1</sup>	0	5 906
<b>Cost (gross) as of 30.06.</b>	<b>220 376</b>	<b>45 669</b>
Translation adjustments	5 249	0
<b>Value as of 30.06.</b>	<b>225 625</b>	<b>45 669</b>
Additions from acquisitions <sup>2</sup>	n/a	182 711
<b>Cost (gross) as of 31.12.</b>	<b>n/a</b>	<b>228 380</b>
Translation adjustments	n/a	-8 004
<b>Value as of 31.12.</b>	<b>n/a</b>	<b>220 376</b>

<b>In CHF 1000</b>	<b>2019</b>	<b>2018</b>
<b>Accumulated amortization as of 01.01.</b>	<b>-46 332</b>	<b>-38 972</b>
Amortization	-18 955	-684
<b>Accumulated amortization as of 30.06.</b>	<b>-65 287</b>	<b>-39 656</b>
Amortization	n/a	-6 676
<b>Accumulated amortization as of 31.12.</b>	<b>n/a</b>	<b>-46 332</b>

<b>Theoretical book values net</b>		
<b>In CHF 1000</b>	<b>2019</b>	<b>2018</b>
As of 01.01.	174 044	791
As of 30.06.	160 338	6 013
As of 31.12.	n/a	174 044

<b>Effect on income statement</b>		
<b>In CHF 1000</b>	<b>2019</b>	<b>2018</b>
<b>Net profit 30.06.</b>	<b>7 938</b>	<b>6 163</b>
Amortization goodwill	-18 955	-684
Theoretical net profit incl. amortization of goodwill	-11 017	5 479
<b>Net profit 31.12.</b>	<b>n/a</b>	<b>17 001</b>
Amortization goodwill	n/a	-7 359
Theoretical net profit incl. amortization of goodwill	n/a	9 642

### Theoretical book values net

In CHF 1000	2019	2018
<b>Equity according to balance sheet 30.06.</b>	<b>78 737</b>	<b>80 228</b>
Theoretical capitalization of net book value of goodwill	160 338	6 013
Theoretical equity incl. net book value of goodwill	239 075	86 241
<b>Equity according to balance sheet 31.12.</b>	<b>n/a</b>	<b>87 869</b>
Theoretical capitalization of net book value of goodwill	n/a	174 044
Theoretical equity incl. net book value of goodwill	n/a	261 913

<sup>1</sup> Goodwill arising on acquisition of Kenda (see on page 21)

<sup>2</sup> Goodwill arising on acquisition of SciCan and DentalDrives (see on page 21)

A theoretical capitalization of goodwill would have resulted in a currency translation adjustment of TCHF 5249, as the goodwill would be recorded in foreign currency (mainly Canadian dollar and euro).

## 9 Equity

Based on the General Meeting decision on April 30, 2019, the Company distributed a dividend (distribution out of reserves from capital contribution) of CHF 3.00 (previous year CHF 3.00) per share to its shareholders on May 7, 2019. The total amount paid was TCHF 17 924 (previous year TCHF 12 654).

The share capital represents the capital of COLTENE Holding AG. Treasury stock on June 30, 2019, included 14 shares (previous year 65).

### Treasury shares

in CHF	1 HY 2019		
	Number	Transaction Price (Ø)	Net market value
As of 01.01.	3 265	92.90	303 323
Acquisitions	80	99.10	7 928
Disposals	-3 331	93.05	-309 944
As of 30.06.	14	93.35	1 307

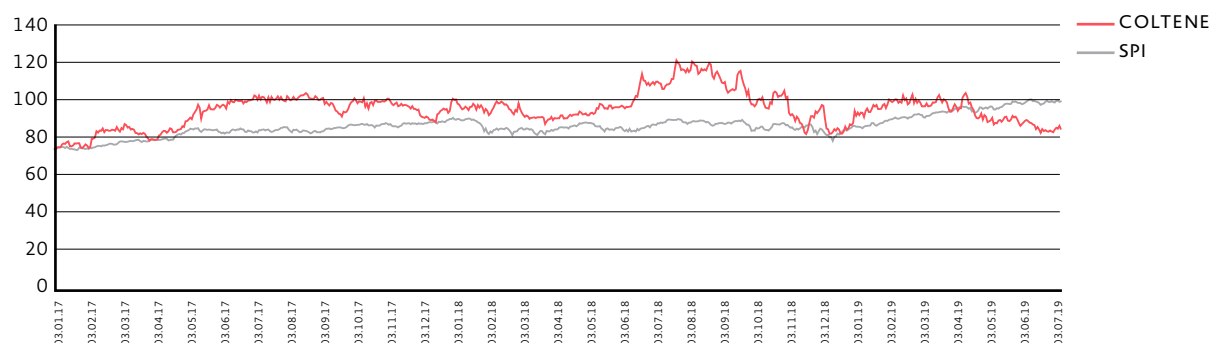
in CHF	1 HY 2018		
	Number	Transaction Price (Ø)	Net market value
As of 01.01.	0	0.00	0
Acquisitions	3 000	95.99	287 961
Disposals	-2 935	95.99	-281 722
As of 30.06.	65	95.99	6 239

## 10 Subsequent Events

As per the release date of this half year report, the Board of Directors and the Executive Management were not aware of any further important events subsequent to the reporting date.

# Investor Relations

## Share Price Performance (03.01.2017 to 03.07.2019)



COLTENE's share price increased by 5.1% during the first half of 2019, from CHF 84.30 to CHF 88.60. COLTENE paid a dividend of CHF 3.00 per share in April 2019 (distribution out of reserves from capital contribution).

## Shareholder Structure

As of June 30, 2019, there were 2103 shareholders entered in the share register (2011 on December 31, 2018). The following shareholders held 3% or more of the share capital of COLTENE Holding AG as of June 30, 2019:

	6/30/2019	12/31/2018
Huwa Finanz- und Beteiligungs AG	21.98%	21.98%
Arthur Zwingenberger, Lucerne <sup>1</sup>	17.20%	17.20%
Rätikon Privatstiftung	10.02%	10.02%
Tweedy, Browne Company LLC	4.21%	4.80%
Credit Suisse Asset Management Funds AG	3.74%	3.75%
Robert Heberlein	3.40%	3.40%
UBS Fund Management (Switzerland) AG	3.29%	3.49%

<sup>1</sup> Arthur Zwingenberger acquired the shares in the first half of 2019 from Arno Holding S.à.r.l., which he controls



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**Corporate Calendar**

Media and analysts conference on first-half 2019 results, publication of first-half 2019 results	August 22, 2019
Media and analysts conference on fiscal 2019 Publication of Annual Report 2019	March 5, 2020
Annual General Meeting 2020	April 2, 2020

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