Dear Shareholder,

In 2019, the Straumann Group achieved double-digit growth for a fifth consecutive year, lifting revenue by 17% to CHF 1.6 billion. Excluding external growth and currencies, the organic increase also amounted to 17%, clearly exceeding our initial target of revenue growth in the low teens. Fuelled by strong top-line growth, gross profit rose to CHF 1.2 billion (75.6% margin core), enabling us to invest further in innovation, research and development with the goal of providing faster, better treatments with additional predictability, comfort and convenience. We also continued to invest in people (p. 66 ff.) and production (p. 74 ff.).

Growth of 17% & gross profit of CHF 1.2 billion enabled us to invest further in faster, better treatments.

Despite these developments and the increased share of lower-margin products in our portfolio, we achieved our objectives for improved profitability, as core EBITDA, EBIT and net profit margins reached 31.6%, 27.1% and 21.2%, respectively (29.6%, 26.9% and 21.5% in 2018; see note on page 3 for definition of core).

To expand our value business and to secure key technologies and services, we acquired / incorporated several companies around the world (see p. 40). Collectively, these investments amounted to approximately CHF 102 million. We also invested heavily to expand manufacturing capacity, which together with investments in information technology and other fixed assets, resulted in capital expenditures of CHF 150 million – our highest level to date. Notwithstanding, cash from operating activities surged to CHF 378 million (CHF 277 million in 2018) and free cash flow rose to CHF 230 million (CHF 169 million in 2018).

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IMPRESSIVE GROWTH IN ALL OUR REGIONS AND BUSINESSES

Building on strong prior year performances, all our regions achieved double-digit organic revenue growth, fuelled by emerging markets like Brazil, China, Russia, Turkey. With growth exceeding 20% for a third consecutive year, Asia/Pacific (+22%) continued to be our fastest performer. North America (+20%) came close to achieving its highest growth in 15 years, while Latin America (+17%) delivered an exceptional performance in an unstable environment. Europe, Middle East & Africa climbed a solid 13% and, being our largest region, contributed the largest share of our growth (see p. 41 ff.).

By business, more than half of our growth came from implants, driven by robust demand for premium solutions and the expansion of our value brands. Our innovative Straumann BLX implant attracted customers from competitors and sold more than 100 000 units in its first year on the market. Biomaterials sales continued to thrive, while dynamic sales expansion in clear aligners added to the challenges of meeting demand and building additional capacity for launches outside North America.

We won customers across the board, reflecting the attractiveness of our solutions.

One set back in 2019 was the fire at Dental Wings in Montreal, which fortunately caused no casualties but severely disrupted our scanner business. However, thanks to our distribution and cobranding agreements with 3Shape, Carestream and Medit, we continued to build our position in this fast-growing, strategically important area.

We won customers across the board, reflecting the attractiveness of our solutions, the power of our marketing and the effectiveness of our sales approach.

MARKETS, ENVIRONMENT – TRENDS

Driven by demographics, affordability, awareness and esthetics, the global market for implant dentistry continued to grow in the mid-single-digit range and is worth approximately CHF 4.6 billion[1]. It offers considerable potential and is expected to outpace the dental market in general. Once again, we outperformed by a factor of three and extended our leading share to 26%, lifted by organic growth in the premium and value segments as well as new launches and acquisitions.

Our second largest market, clear aligners, is also highly attractive and, having grown at around 20%, is now estimated to be worth approximately CHF 3.2 billion (see p. 32). Having entered this market in 2017, our share is modest but expanding dynamically with good prospects. Entering this field is one of several initiatives to broaden our scope, that have more than trebled our addressable market in the past three years to approximately CHF 14 billion (see pp. 20, 33).

A GROWTH STRATEGY TO TAKE US BEYOND CONTINUITY

The key trends we observe in dentistry are affordability, consolidation, digitalization, education, esthetics, gender shift, innovation and prevention. Each of them is an opportunity for the Straumann Group. To address them and our various markets, our strategy is built around three key priorities (see p. 18) and is designed for sustainable success.

DRIVING A HIGH PERFORMANCE CULTURE AND ORGANIZATION

Throughout the past six years, our first priority has focused on culture and the 'player-learner' mindset that drives results, creates value and enables us to excel. In 2019, more than a thousand colleagues around the world took part in Cultural Journey workshops. In addition, the two top management tiers completed a new program to help them reach their full potential, inspire high performance, and drive organizational culture. Our annual global pulse-check survey continued to show high levels of engagement (>90%) and support for the Cultural Journey (80%) (see p. 66 f.).

With our business expanding, the size, diversity and spread of our team increased significantly. We created 830 new jobs worldwide, and added 800 more through acquisitions, increasing our workforce to approximately 7600. To build, manage, support, and develop this fast growing team, we continued to focus on leadership while introducing new digital processes and platforms (see p. 66 ff.).

We have also focused on career development and key succession plans. The CEO transition from Marco Gadola to Guillaume Daniellot has gone smoothly, as have the other executive management

Once again, we outperformed the market by a factor of three and extended our leading share to 26%.

We created 830 new jobs worldwide.


Continuity: the CEO transition from Marco Gadola to Guillaume Daniellot has gone smoothly.

changes (see p. 108 ff.). By developing internal talents and bringing in experience and diversity from leading multinational firms, we have fostered continuity and looked beyond.

The most significant organizational change has been to separate Digital and Orthodontics into separated dedicated business units, reflecting their strategic importance and high growth potential. At the same time, we raised our emphasis on digital transformation and data management internally.

Behind our excellent results and progress in 2019 are dedicated people, whose outstanding performance and achievements deserve recognition and reward. We met the majority of our short-term incentive targets across countries and businesses, resulting in a bonus payout at or above target for eligible employees. We also surpassed the 3-year objectives for total shareholder return (+14% CAGR) and EBIT growth (CHF +50 million), which determined the long-term incentive (LTI). As a result, our senior management received a capped maximum award for 2019 (see p. 129 ff.).

Behind our excellent results and progress in 2019 are dedicated people who deserve recognition and reward.

TARGETING UNEXPLOITED GROWTH MARKETS AND SEGMENTS

Our efforts to target unexploited growth markets and segments were intense and fruitful. We opened new subsidiaries in Taiwan and Croatia, increasing our geographical reach and proximity to customers.

To further penetrate the fully-tapered implant segment, which accounts for roughly a quarter of the 27 million dental implants placed annually, and to offer faster treatment options, we launched Straumann BLX (see p. 23) and a suite of immediacy solutions. We also extended our range of ceramic implants.

To increase affordability, we continued the global rollout of Neodent and strengthened our portfolio of value brands, acquiring Anthogyr and Zinedent, in addition to increasing our ownership of Medentika and investing in Warantec. We also developed a completely new brand for the lower value segment (see p. 24).

To increase affordability, we continued the global rollout of Neodent and strengthened our portfolio of value brands.

In the corporate segment, we secured further partnerships with leading dental service organizations (DSOs) in the US and Europe and began to intensify our focus on emerging private chains in China. DSOs now account for roughly a tenth of our business.

BECOMING THE TOTAL SOLUTION PROVIDER IN ESTHETIC DENTISTRY

Our strategy to provide complete solutions for replacement and corrective dentistry addresses the general desire for dental esthetics as well as customer preferences for convenient, comprehensive, efficient solutions from one supplying partner.

Our strength in innovation and ability to create partnerships enabled us to expand our differentiated offering in 2019. In addition to complementing our extensive ranges of premium and value implant systems, we expanded our digital solutions to support a fully digital workflow. We entered further agreements to cobrand and distribute third-party scanners and to promote our DWOS system as the preferred software. To complement our clear aligner business, we acquired a design / planning company as well as a specialist developer of thermoplastics, which provides us with a top-performance material and entry into the orthodontics material supply business.

Our strength in innovation and ability to create partnerships enabled us to expand our differentiated offering in 2019.

CONTINUED COMMITMENT TO LONG-TERM VALUE CREATION

We remain committed to sustainable development and value creation. This means running our operations efficiently and using natural resources effectively to avoid waste and to minimize our impact on the environment (see p. 78 ff.). Our commitment also encompasses our charitable projects that offer dental healthcare to underprivileged people in 14 countries (see p. 70 ff.).

The continuing growth of our markets, our strong business performance and anticipation of future prosperity were reflected in the Group's share price and market capitalization, which rose to a record high of more than CHF 15 billion. By year end, the share price had climbed to more than CHF 950 and closed 53.8% up from the prior year, while the SMI and SMIM indices closed the year up 26.0% and 31.7% respectively. Straumann was the fourth-best performing share in the SMIM universe in 2019 and the best performer over the past four years.

In 5 years our revenue and profits have more than doubled.

Based on the positive results in 2019 and the favourable outlook, the Board of Directors proposes a further dividend increase to CHF 5.75 per share, payable on 15 April 2020.

OUTLOOK (BARRING UNFORESEEN EVENTS)

Over the past five years, our revenue and profits have more than doubled, and the size of our global team has more than tripled. Having outperformed our market year after year, the question arises, can we sustain this continuity and go beyond? We are confident that we can for following reasons:

We have a strong culture and a highly engaged team focused on performance with high-caliber experienced leaders.

The market for tooth replacement offers significant opportunity. In premium, we have only just launched Straumann BLX in initial markets and we have a strong innovation pipeline. In value, we have one of the broadest ranges covering all price tiers in most markets. We also have the capabilities to expand these brands internationally.

The market for clear aligners offers huge potential and we have all the components to succeed, including a range of intra-oral scanners, which are a key to the digital ecosystem. Barring unforeseen events, we expect the global dental implant market to continue growing at about 4–5% in 2020, and are confident that we can continue to gain share by achieving organic revenue growth in the low double-digit percentage range. The expected organic revenue growth will support further investments in Sales & Marketing and Research & Development, resulting in a stable core EBIT margin, excluding the impact of currency fluctuations and the coronavirus.

We would like to thank all our employees for their commitment, engagement and hard work in 2019. On behalf of the Board, we also thank you, our shareholders, for your ongoing support and confidence in our company.

Yours sincerely,

Gilbert Achermann
Chairman of the Board
of Directors

Guillaume Daniellot
Chief Executive Officer
(as of 1 Jan. 2020)

Marco Gadola
Chief Executive Officer
(until 31 Dec. 2019)

14 February 2020

The market for clear aligners offers huge potential and we have all the components to succeed.

We are confident that we can continue to outperform and gain market share.

Notes and references

1 Decision Resources Group 2017–18, iData 2017 and Straumann bottom-up estimates in 70 countries.