

## Compensation Report Summary

### **SUPPLEMENT TO THE INVITATION TO THE 2021 ANNUAL GENERAL MEETING**

Dear Shareholder,

As Chair of the Human Resources and Compensation Committee (HRCC), I am pleased to present the Compensation Report 2020.

2020 began with continued strong growth, a reflection of our comprehensive succession planning that provided a seamless transition to the new CEO and leadership team. Thanks to their outstanding leadership the company has weathered the COVID crisis, adapted quickly ahead of its peers and is poised to continue to rebound strongly.

The Group responded quickly to the rapid spread of the pandemic by ensuring personnel safety and business continuity. With the world shutting down and business dropping an estimated 70% at the time, we quickly had to align costs with the lower revenues. We reduced working hours, non-critical benefits and salaries where possible, including voluntary pay cuts by leadership. Capital investment plans were placed on hold and liquidity was secured to ensure operational continuity. As personnel makes up more than 50% of our costs, we were unable to avoid resizing completely and had to reduce our global workforce by approximately 660 jobs (roughly 9% of the global workforce). A key objective was to conduct this in a responsible, timely and fair manner, without compromising the company's ability to rebound rapidly.

Throughout this period the Board of Directors (BoD) and its Committees worked closely with the Executive Management Board (EMB), increasing

the frequency of meetings to develop scenarios and to address the impacts of the aforementioned measures on our people, their compensation, and to provide support through challenging decisions. The HRCC held two COVID-19 emergency meetings as the crisis was unfolding, focused on the health of our employees, short-time working, and other measures to maintain continuity.

To support and lead through the uncertainty surrounding the COVID-19 situation, in April leadership agreed to the following voluntary reductions of their rewards packages:

- BoD: 40% of their annual equity allocation
- EMB: 25% of their fixed compensation for the 2nd quarter and a deferral of their 2019 bonus payment until July 2020
- other senior management members voluntarily reduced their compensation by 20% for the 2nd quarter
- removal or reduction of non-critical benefits in many of our organizational units for various periods during the year, most of which have been reinstalled by year end.

After the very sharp sales decline in Q2, we were proud to see how quickly management and the staff were able to return the Group back to a growth track in Q3 and Q4. Although the turnaround was not enough to make up fully for the lost revenues earlier in the year, the company outperformed the market, gained customers, launched innovations, took entrepreneurial steps into new areas and created opportunities. This outstanding performance is thanks to dedicated people who deserve recognition, appreciation and reward. In this extraordinary year, typical performance measures can not directly reflect these incredible efforts only through financial indicators. As a result, the BoD will propose to the shareholders at the 2021 AGM, that an 80% discretionary award be made for the Executive Management Board (EMB) for the 2020 performance year Short Term Incentive (STI). Moreover, globally, all eligible personnel will receive a discretionary bonus at 80% of their STI target in recognition of their exemplary behavior, commitment and leadership in persevering through the crisis and beyond.

Company culture, opportunities, job enrichment, security and competitive compensation are quintessential, which is why we constantly review, challenge, benchmark and improve our rewards system. In order to remain competitive with the market and to further sustain the growth path that our company has been paving over the past years, to retain

talent and to recognize long-term performance and continuity in addition to aligning management's rewards with our shareholders' experiences, we awarded the long-term incentive grants for 2020 in full.

## LOOKING AHEAD

The key to bouncing forward and sustaining our success is to ensure that our leadership is strategically focused and has the capabilities, resources and incentives to drive and manage growth, which is why we are expanding the company targets in the short-term incentive plan to extend the focus of a select group to deliver growth in areas such as orthodontics, value brands and our digital markets. In addition, we are continuing to capitalize on our internal expertise by connecting talent with opportunities and deploying people to areas that are poised for growth.

Given the continuing uncertainty related to the pandemic, we do not anticipate major changes to the framework or principles for compensation during 2021.

On your behalf, I would like to thank every member of our global team for their commitment and achievements. I would also like to express my gratitude to the EMB for its constructive approach to the dialogue amid unprecedented circumstances in 2020, as well as the Board of Directors and you, as shareholders, for your continued confidence and trust in the HRCC.

A handwritten signature in black ink, appearing to read 'B. Lüthi', with a stylized flourish at the end.

Beat Lüthi

Chairman of the Human Resources & Compensation Committee

## COMPENSATION APPROVED, DISPENSED AND PROPOSED

in CHF million

		2020	2021
<b>Board of Directors</b>	members	8	8
Fixed compensation <sup>1</sup>	approved	2.7	
	dispensed	2.7	
	proposed <sup>2</sup>		2.7
<b>Executive Management Board</b>	members	14	14
Fixed compensation <sup>1</sup>	approved	9.2	
	dispensed	8.2	
	proposed <sup>2</sup>		9.0
Short-term incentive (variable) <sup>3</sup>	approved	6.1	
	dispensed	6.1	
	proposed <sup>2</sup>		3.5
Long-term incentive (variable) <sup>3</sup>	approved	3.2	
	dispensed	2.9	
	proposed <sup>2</sup>		3.5

1 1 April to 31 March.

2 For approval at the 2021 AGM.

3 1 January to 31 December.