

# Operational Review and Financial Commentary

**COLTENE carried the momentum of its record 2021 performance through to the first half of 2022. However, the repercussions of the pandemic continued into the second half, and new challenges emerged. Inflation and fears of recession as well as lockdowns in China led to an overall decline in demand worldwide. In addition, the Infection Control business was marked by the normalization of demand for surface disinfection products and the persistent backlogs in deliveries of electronic components. Thanks to a flexible organization, strict cost control and successfully implemented price increases, COLTENE achieved an EBIT margin of 13.1% – despite a challenging market environment.**

## **Sales Performance Influenced By a Variety of Challenges**

With sales of CHF 267.1 million, the 2022 financial year did not live up to the record result achieved in 2021. Net sales decreased by 4.3%. At constant exchange rates, the decline was 3.5%. Most of the fall in sales was due to the high demand for OPTIM products in 2021, which normalized in the year under review. Apart from that, 2022 started with a positive trend in demand. From mid-year on, however, there were signs of a slowdown on the markets. This was attributable to the general uncertainty caused by rapidly rising and high inflation rates and fears of recession. This led to slower demand in some markets, particularly for products sensitive to the economic cycle. The continuing supply chain challenges in relation to electronic components also had a negative impact, resulting in high delivery backlogs. Infection Control was particularly impacted. While the situation did ease somewhat in the fourth quarter, it remains challenging. Continuing lockdowns in China and the depreciation of the EUR further contributed to the negative sales performance. The stronger USD only partially compensated for this decline.

In 2022, the effects of the pandemic continued, and new challenges emerged.

## **Steady Development in Dental Preservation and Efficient Treatment**

After significant growth was recorded across all areas in 2021 due to catch-up effects associated with the COVID-19 pandemic, the dental market has currently stabilized near its pre-pandemic levels. Efficient Treatment is still the largest product group, generating sales of CHF 100.5 million and accounting for a 37.6% share of total sales. The year-on-year decline in this area was 2.9%, or 0.3% in local currency terms. In Infection Control – the second largest product group, accounting for 33.5% of total sales – COLTENE recorded a 6.9% downturn in sales to CHF 89.6 million. Since the majority of this segment is realized in USD, the drop was 9.3% in local currency terms. The main reasons were the aforementioned supply chain challenges and decreased demand for surface disinfection products. Dental Preservation – the third product group – generated sales of CHF 77.0 million, which corresponds to a decline of 3.1%, or 0.7% in local currency terms.

### **Positive Growth in Emerging Markets and EMEA**

Overall, with just a few exceptions, virtually all the markets in industrialized countries recorded a drop in sales. By contrast, emerging markets performed very well, achieving significant increases in COLTENE sales.

Generating sales of CHF 128.9 million (2021: CHF 138.9 million), North America (NAM) is still COLTENE's largest market. Since the North American market accounts for a large share of sales in Infection Control, it was affected the most by declining demand in this product group. In the reporting currency, sales decreased by 7.2% (10.5% in local currency terms).

The second largest region, EMEA, increased sales in local currency at a pleasing 4.2%.

EMEA, the second largest region, recorded a positive performance. With sales of CHF 94.8 million (2021: CHF 97.6 million), a 3.0% drop was recorded in the reporting currency. But in local currency terms, however, sales grew by 4.2%. The Middle East and Africa region and the United Kingdom in particular recorded encouraging sales growth.

Latin America (LATAM) – the smallest region, accounting for 5.5% of total sales – continued to perform well with sales of CHF 14.7 million (2021: CHF 12.2 million). Growth was 20.7% in CHF, or 16.1% in local currency terms. The highest growth rate was recorded in Brazil, where sales jumped 58.7%.

Asia contributed 10.8% to Group sales. In this market, the restrictive lockdowns in China, in particular, had a negative impact. Sales for the region as a whole fell from CHF 30.5 million in 2021 to CHF 28.8 million in 2022. While India performed very well with 25.5% growth (27.9% in local currency terms), sales in China dropped sharply in the year under review (-20.3% in CHF terms or -21.4% in local currency terms).

### **Balancing Sustainable Growth and Cost Optimization**

Thanks to flexible staff deployment and further optimizations on the cost side, despite the smaller sales base, COLTENE achieved EBIT of CHF 34.9 million (2021: CHF 43.8 million), with an EBIT margin of 13.1% (2021: 15.7%). Total operating expenses (OPEX) came to CHF 136.6 million (2021: CHF 137.2 million).

Lower costs were incurred in HR, while sales and administration expenses increased. In HR, this was mainly a reflection of lower variable wage costs. Additionally, staffing levels on an FTE basis (1 221 as at 31 December 2022) were down slightly year on year (31 December 2021: 1 242 FTEs). Moreover, it was and still is difficult to recruit qualified workers, and consequently vacancies remain unfilled for longer. Overall, personnel costs decreased by CHF 1.2 million (CHF 0.7 million at constant exchange rates).

In terms of selling and administration expenses the increase in travel and the resumption of attendance at trade shows led to a 2.8% increase in costs. Although costs were optimized here too, additional expenses were also incurred with a view to sustainable growth. The cost development for product registrations was encouraging. It was around CHF 1 million lower than in 2021, which was impacted by extraordinary costs associated with MDR certification.

### **Tax Rate Reduction**

The financial result in 2022 was comparable with the previous year, with expenses of CHF 2.0 million (2021: CHF 2.6 million). The main driver of financial expenses was exchange rate differences on balance sheet items in EUR. These losses were only partially offset by the stronger USD.

At 22.7%, the expected tax rate is in line with the previous year (23.1%). The effective tax rate was also reduced slightly from 23.0% in 2021 to 21.1%, due to changes in product mix and a reduction of non-refundable withholding taxes.

### **Operating Cash Flow Reduced to Ensure Delivery Capacity**

In 2022, ensuring delivery capacity was a priority due to unfavorable supply chain conditions for critical components. Accordingly, COLTENE made additional investments in its raw materials inventory, resulting in a free cash flow of CHF 15.2 million in the year under review, which is around 33% or CHF 7.5 million down on the previous year (2021: CHF 22.7 million). Lower tax payments compared with 2021 had a positive impact on cash flow.

Capital expenditure totaled CHF 8.2 million, around 16% less than in 2021, due to both the uncertain outlook and long delivery times for capital items.

Debt increased from CHF 42.9 million in 2021 to CHF 47.1 million in 2022. Due to above-average repayment of financial liabilities in 2021, cash flow from financing activities was CHF 19.9 million down from the previous year.

At the Annual General Meeting on 19 April 2023, the Board of Directors will propose the distribution of a CHF 3.30 dividend per share, representing a 4.3% dividend yield based on the year-end closing price.

### **Investments in Upgrading and Optimizing Production Sites**

COLTENE is continuously upgrading its production facilities and is also investing in its manufacturing processes and methods. Patient safety, product quality and cost-effectiveness are the key priorities, along with environmental safety and sustainability

Thanks to flexible staff deployment and cost optimizations, COLTENE achieved EBIT of CHF 34.9 million.

criteria. In the year under review, the COLTENE Group made investments to optimize production costs and work processes, improve product range and further reduce its environmental impact.

The COLTENE plant in **Langenau, Germany**, made various investments to replace and upgrade machinery. In addition the company invested in new machinery for the in-sourcing of manufacturing processes.

In **Altstätten, Switzerland**, investments mainly went into refurbishing and automating machinery. The largest item was the purchase of a new filling line, which significantly increased capacity. Additionally, the Altstätten site also invested in setting up a uniform CRM system for the Group. Together with the customer service software (also newly introduced), all customer inquiries (product information, application questions, complaints, repairs, field service visits) are documented as tickets with various classifications. The interface to the associated CRM system (also newly introduced) provides a 360° view of all customer relationships, improving support and service quality for customers. Customized dashboards for sales and ticket analysis enable quick and concise evaluation of key performance indicators – including orders, product quality, number of customer visits and processing time. They can also be accessed any time while on the move, enabling targeted sales management and customer care.

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At the factory in **Cuyahoga Falls, Ohio, USA**, investments were made in a new training center, allowing COLTENE to offer customers and service technicians training on our products in a well-equipped modern environment and to demonstrate the full product range along workflows. This also promotes exchange between people in the field and our Research Department, allowing key customer needs to be identified and incorporated early on in the product development process. The Training Center can accommodate 250 participants and is equipped with two complete instrument reprocessing lines. Substantial additional investments were made in machinery to further progress automation.

SciCan Ltd. in **Toronto, Canada**, primarily invested in innovation development and is also collaborating with external partners for this purpose. The developments are focused on further digitalizing the instrument reprocessing process. Investments were made primarily in the digital services platform.

Micro-Mega SA in **Besançon, France**, made investments with a view to expanding its production capacities by purchasing additional milling machines to make endodontic files. COLTENE Group Management is confident that these investments make a significant contribution to ensuring environmentally sustainable manufacturing processes and dental products. COLTENE will continue optimizing those processes throughout the value chain, not least to continuously reduce environmental impact.

In total, net investments in property and intangible assets came to CHF 8.2 million in 2022 (2021: CHF 9.9 million).

### **Balance Sheet Remains Solid**

As of 31 December 2022, the consolidated equity of the COLTENE Group was CHF 112.2 million (2021: CHF 107.4 million). The shareholders' equity of COLTENE Holding AG was CHF 145.8 million (2021: CHF 162.3 million). Of this amount, CHF 105.3 million are capital contribution reserves (CCR/KER), which under current law is tax exempt for distribution to shareholders (natural persons residing in Switzerland). Of these capital contribution reserves, CHF 55.3 million are CCR/KER with foreign reference, which are approved for non-taxable distribution and not conditional on a coinciding payment of a matching, taxable dividend.

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Total assets as at 31 December 2022, were CHF 190.6 million (2021: CHF 186.7 million). Net debt increased year on year from CHF 17.2 million to CHF 22.8 million. The net debt ratio (net debt divided by EBITDA) increased accordingly from 0.34 to 0.55. The equity ratio at the balance sheet date was 58.9% (2021: 57.5%). These ratios are in compliance with the covenants of the credit line agreement.

### **Innovations and Projects**

Pushing ahead with innovations is a top priority in order to develop new cutting-edge products and services to present to COLTENE customers. Research & Development activities are carried out across the product portfolio, with a special focus on Infection Control. The instrument reprocessing process is particularly important in this regard. R&D spending was CHF 11.4 million in 2022 (2021: CHF 11.2 million), CHF 2.8 million of which was capitalized (2021: CHF 2.2 million).

The introduction of product lifecycle management (PLM) software remains the most important Group-wide project. The aim here is to meet increased regulatory requirements by means of a uniform process landscape and product documentation. In addition, the current projects to expand the functionalities of the newly launched customer desk solution, as well as digital services related to Infection Control devices, will progress digitalization.

Work is also underway to increase the company's presence on the important Chinese market by stepping up cooperation with local partners. The main aim here is to be able to tap the Chinese market's tremendous potential locally from China. This makes both regulatory and organizational activities easier and also takes environmental impact into account.

**Potential for Growth Despite an Uncertain Market Environment**

After virtually all markets have recovered from the COVID-19 pandemic, the market now finds itself beset with economic and geopolitical uncertainties, particularly related to high inflation in individual countries and fears of recession. As a result, customers are proceeding with caution on the procurement side. This is especially true for equipment that is sensitive to the economic cycle. On the other hand, we assume that patient treatments can only be postponed for a short time and will be made up quickly when the economy brightens. We expect further easing on the purchasing side and are optimistic that all delivery backlogs can be processed during the first half of 2023, and that COLTENE will be able to respond flexibly to the needs of the market with good stock availability.

COLTENE's presence on the important Chinese market is being increased by stepping up cooperation with local partners.