# Operational Review and Financial Commentary

**The COLTENE Group proved highly resilient in a challenging economic environment, outperforming its result for the same period a year earlier, at constant exchange rates. The normalization in supply chains had a positive impact; it helped clear most of the backlogs for Infection Control sales. Cash flow benefited from inventory optimization and showed very healthy growth as a result.**

**Net Sales impacted by strong Swiss Franc**
In the first half (H1) of 2023, the COLTENE Group generated net sales of CHF 131.4 million (H1 2022: CHF 134.9 million), a 2.6 % decline year-on-year. At constant exchange rates, however, this is a 1.7 % increase. The decline in sales partly reflected the negative performance of the euro (EUR), in particular – but also of the US (USD) and Canadian (CAD) currencies – against the CHF.

Net sales grew 1.7 % year-on-year, in local currency terms.

In H1 2022, supply chain constraints involving electronic components still caused backlogs for Instrument Reprocessing sales. Since then, the supply chain situation has by and large returned to normal, and the backlogs have been mostly cleared. In the meantime, however, device sales have come to reflect the tough economic environment, and spending on high-end devices and equipment is more likely to be deferred. Despite these challenges, the COLTENE Group grew Infection Control sales by 6.2 %, year-on-year. At constant exchange rates, the increase was 10.6 %. In Dental Preservation and Efficient Treatment, our distribution partners reduced their inventories, especially in the key markets Europe and North America. This led to lower sales, year-on-year. Treatment Auxiliaries sales were down 4.2 % (+0.3 % in local currency terms) and were driven mainly by weaker demand for Prosthetics products. In Dental Preservation, the decline was 9.5 %, or 5.5 % in local currency terms. Products for root canal treatment saw the steepest drop in sales for this product group, primarily due to delays in the endodontic file EU MDR certification process caused by the notified body TÜV Süd.

**Positive Performance in North America, Reopening in China**
The relative share of sales among the four geographic regions similarly reflected the return to more normal supply chain conditions. Nowhere was this more in evidence than in North America. After narrowing to 45.7 % in the same period a year earlier, the share of sales recovered to 47.2 %, more in line with 2021 levels. While at 0.6 %, sales remained stable in CHF terms, they were up an impressive 4.2 % in local currency terms. At 35.4 % of total sales (H1 2022: 36.8 %), Europe, Middle East and Africa (EMEA) was the second-largest market. Generated in large part from EUR-denominated business, sales in this region declined 6.2 % in CHF terms, or just 1.6 % in local currency terms. Middle East and Africa did not match its strong growth of the prior-year period. There, sales were 23.4 % lower year-on-year, at constant

exchange rates. COLTENE's third-largest market was Asia, at 11.1%. Sales were down 0.4% in CHF terms in this region. In local currency terms, however, Asia sales expanded 7.4%. After a difficult year, China returned to growth when lockdowns were lifted. Following a subdued start to 2023, sales in this market ended H1 up 3.1% overall in CHF terms, or 13.9% in local currency terms. Similarly, the Indian market again posted a very healthy performance, with sales 10.9% higher year-on-year in CHF terms, or 22.4% in local currency terms. The fourth-largest market, Latin America, fell somewhat short of its prior-year record result. Sales there declined 8.2% in CHF terms, or 6.2% in local currency terms.

**Product Mix impacted Margins**

The gross margin was 65.3%, down from H1 2022 (67.7%). The main reason for this was the change in the product mix increasing the share of device sales. The electronic components required for these needed sourcing at a time of global supply chain disruptions, increasing the costs. Consequently, we assume that the gross margin will improve in H2 2023. By contrast, we were able to reduce operating costs by close to 4.7%. This was the result of rigorous cost management. The main driver was payroll expenses, which were 4.5% lower year-on-year.

Depreciation and amortization expenses were marginally higher, at CHF 3.4 million, compared to a year earlier (H1 2022: CHF 3.3 million). The EBITDA margin narrowed to 13.6% (H1 2022: 14.8%), reflecting the combined effect of lower sales and a lower gross margin.

Group operating profit (EBIT) for H1 2023 was CHF 14.4 million (H1 2022: CHF 16.7 million), or 13.5% lower, year-on-year. This corresponds to an EBIT margin of 11.0% (H1 2022: 12.4%), returning to prepandemic levels. The financial result was about CHF 0.1 million higher than it had been for the first half of the previous year, due to higher debt interest expenses.

COLTENE was able to reduce operating costs by 4.7%.

The reported tax rate was 24.4 %, up from a year earlier (22.0 %), mainly reflecting non-reclaimable withholding tax on dividend payments by subsidiaries. Without this effect, the tax rate would have been in line with the H1 2022 rate.

For H1 2023, the consolidated net profit of the COLTENE Group was CHF 10.0 million (H1 2022: 12.1 million).

**Positive Cash Flow Performance**

Cash flow from operating activities was CHF 20.6 million, a sharp increase from the same period the previous year (H1 2022: CHF 11.3 million). The strong cash flow performance was mainly supported by the optimization of net working capital, some of which was due to the scaling back of stockpiling activities as supply chain constraints eased worldwide during the period under review. This contrasts with the same period a year earlier, when stockpiling had increased, with a negative impact on cash flow. Cash flow from investing activities was CHF 3.9 million, up from the same period the previous year (H1 2022: CHF 3.5 million). Cash flow from financing activities recorded an outflow of CHF 16.9 million, due primarily to a dividend payment to shareholders in the amount of CHF 19.7 million.

At CHF 16.7 million, free cash flow was at a record high despite a lower result (H1 2022: CHF 7.8 million).

Free cash flow was up strongly thanks to optimized net working capital.

**Strong Balance Sheet to support future Growth**

As of 30 June 2023, the consolidated equity of the COLTENE Group was CHF 100.8 million (31 December 2022: CHF 112.2 million). Total assets as of 30 June 2023 were CHF 187.1 million (31 December 2022: CHF 190.6 million). Due to the dividend paid in April 2023, net debt rose to CHF 26.6 million at the balance sheet date (31 December 2022: CHF 22.8 million). The equity ratio narrowed compared to the prior-year balance sheet date, from 58.9 % to 53.9 %. In other words, the balance sheet of the COLTENE Group continues to be extremely sound and provides scope also for inorganic growth.

**Milestones reached in ongoing strategic and operational Projects**
Strategic projects and operational initiatives continued during H1 2023. Important milestones were hit, in particular in initiatives targeting digital transformation and instrument reprocessing. In addition, COLTENE continued following through on its schedule for implementing non-financial reporting obligations as part of its sustainability reporting. The Group also made progress on projects to help further reduce its carbon footprint.

At IDS in Cologne, the world's premier trade show for the dental industry, with trade visitors from more than 162 countries, COLTENE presented new products and services that will be phased in over the next six to twelve months. Via the my.coltene digital platform, data generated by COLTENE/SciCan devices is analyzed automatically and documented in line with applicable regulatory requirements. This delivers efficiency gains for dental practices while enhancing patient safety. Instruments can be traced along the entire cleaning, sterilization, and disinfection process, all the way back to the individual patient. In addition, the data stored in the cloud assists service technicians in providing maintenance and support. The innovative system is also compatible with older-generation and third-party equipment, providing users with a seamless workflow view.

New product and service launches are imminent.

COLTENE is far along in its shift to Medical Device Regulation (MDR) requirements. Most product documentations have been revised and the product families have been recertified. However, registration standards generally have become far stricter and are increasing costs in the industry. As of this report, COLTENE is facing tremendous delays in the certification process for endodontic files through the notified body TÜV Süd, which has led to backlogs. On a brighter note, the newly certified endodontic files are now on track to reach markets in H2 2023.

In sustainability matters, COLTENE made further progress. The Group is rolling out a reporting system for collecting non-financial sustainability reporting data. Steps are also under way to meet the new statutory requirements for sustainability reporting. Targets, relevant KPIs, and actions are being developed to align COLTENE with sustainability criteria over the longer term, as a matter of strategic importance. Installation of the rooftop solar panel array in Altstätten is making solid progress and will cover an additional 25 %, approximately, of the site's annual electricity use.

With the above initiatives, COLTENE is well positioned to face H2 2023 with confidence and optimism, despite an increasingly challenging economic environment.