

SIRONA DENTAL SYSTEMS INC.

Tooth takes: Takeaways from Sirona Dental Product Demonstrations & Investor Lunch

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We were pleased to host a visit to the dental office of Dr. Dean Vafiadis, DDS, as well as an investor lunch with VP of Investor Relations John Sweeney. Dr. Vafiadis is a key thought leader and educator in the dental world, particularly around the benefits of CAD/CAM technology. Vafiadis has begun to publish numerous findings and studies on the advantages of CAD/CAM dentistry, and we'd classify him as one of the true pioneers and educators of this technology in the dental world.

Vafiadis stressed the biggest selling point of CEREC and CAD/CAM technology continues to be the ability to complete a crown procedure in just one visit in under two hours, versus the typical method which requires two visits for the patient. In Dr. Vafiadis's view, the benefits of the technology are clear, with the biggest challenge in the adoption of the technology continuing to be a) proper and effective education of the benefits and uses of the product, as well as b) coaxing a dentist to change the "typical way" he or she runs their individual practice. While pioneers like Dr. Dean continue to spread the word on the capabilities of this technology, one big longer-term push for Sirona is introducing CEREC in dental schools around the globe, with the hope of making CAD/CAM education a required part of the dental curriculum.

SIRO: Quarterly and Annual EPS USD

	2010		2011		2012			Change y/y	
FY Sep	Actual	Old	New	Cons	Old	New	Cons	2011	2012
Q1	0.81A	0.96A	0.96A	0.96A	1.03E	1.03E	0.99E	19%	7%
Q2	0.64A	0.58A	0.58A	0.58A	0.74E	0.74E	0.75E	-9%	28%
Q3	0.66A	0.76E	0.76E	0.72E	0.82E	0.82E	0.81E	15%	8%
Q4	0.45A	0.63E	0.63E	0.66E	0.69E	0.69E	0.73E	40%	10%
Year	2.56A	2.93E	2.93E	2.92E	3.28E	3.28E	3.27E	14%	12%
P/E			18.6			16.6			

Source: Barclays Capital
 Consensus numbers are from Thomson Reuters

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PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 5.

Stock Rating	1-OVERWEIGHT Unchanged
Sector View	2-NEUTRAL Unchanged
Price Target	USD 62.00 Unchanged

Price (18-May-2011)	USD 54.40
Potential Upside/Downside	+14%
Tickers	SIRO

Market Cap (USD mn)	3033
Shares Outstanding (mn)	55.76
Free Float (%)	99.93
52 Wk Avg Daily Volume (mn)	0.4
Dividend Yield (%)	N/A
Return on Equity TTM (%)	13.54
Current BVPS (USD)	16.46

Source: FactSet Fundamentals

Price Performance	Exchange-Nasdaq
52 Week range	USD 57.87-29.55



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Tooth takes: Takeaways from Barclays Capital hosted Sirona Dental Product Demonstrations & Investor Lunch

We were pleased to host a visit to the dental office of Dr. Dean Vafiadis, DDS, as well as an investor lunch with VP of Investor Relations John Sweeney. Dr. Vafiadis is a key thought leader and educator in the dental world, particularly around the benefits of CAD/CAM technology. Vafiadis has begun to publish numerous findings and studies on the advantages of CAD/CAM dentistry, and we'd classify him as one of the true pioneers and educators of this technology in the dental world. We note his background below:

Dr. Vafiadis is currently the Director of the Full-Mouth Rehabilitation CE course at NYU and is an Associate Professor of Prosthodontics at NYU College of Dentistry. Dr. Vafiadis is a lecturer and clinical instructor at the Aesthetic Advantage Course in the Rosenthal Institute of Aesthetic and Implant Dentistry at NYU, and lectures nationally and abroad for the NYU Continuing Education department. He has instructed over 7,000 dentists with over 500 programs in the past 14 years. Dr. Vafiadis has published and lectured on various computer based programs, such as Cerec, I-tero, Encode, Sim-Plant and Tek-scan which has advanced restorative techniques for Implants, Aesthetics and Occlusion. He is the founder of the New York Smile Institute in NY, an educational center, full service laboratory and learning facility as well as a private practice location for a multi-specialty practice for Implant an Aesthetic Dentistry. Currently he is a lecturer for the Continuing Education program at NYUCD, Larry Rosenthal's Aesthetic Advantage Course for Porcelain Veneers and for Local Dental Districts in USA and Europe.

Below, we provide our brief takeaways from our visit, along with some updated perspectives on Sirona and the CAD/CAM market:

Vafiadis stressed the biggest selling point of CEREC and CAD/CAM technology continues to be the ability to complete a crown procedure in just one visit in under two hours, versus the typical method which requires two visits for the patient. This first benefits the patient who can have a full procedure completed in just one visit with no temporary tooth, which can often be uncomfortable and even fall out. Additionally, the benefits to the dentists are even more profound: a) significantly lower cost by milling in house versus sending to a third party lab and b) allowing new patients to come through the dentist's chair versus seeing the same patient twice for one procedure. In Dr. Vafiadis's view, the benefits of the technology are clear, with the biggest challenge in the adoption of the technology continuing to be a) proper and effective education of the benefits and uses of the product, as well as b) coaxing a dentist to change the "typical way" he or she runs their individual practice. As we heard, while the benefits of the technology once a dentist gains experience are clear, developing a true comfort with CAD/CAM can take up to three months, which remains one of the biggest barriers to adoption in our view as dentists look to resist a disruption in their normal routine.

Dr. Dean noted that he is one of the few dentists doing CEREC restorations on anterior/front teeth, as most CEREC procedures in the world deal with posterior teeth only. To that end, he believes dentists around the world may begin to use the CEREC for anterior teeth, though again, proper education is needed as this procedure tends to be one of the most difficult in dentistry. He pointed to the stronger blocks out on the market today that have made this procedure possible and have continued the evolution of CAD/CAM technology, and would expect even stronger materials to be introduced in the marketplace over the coming years.

As mentioned, the issue with CEREC market penetration does not lie in the technology, but in the proper education of its capabilities. So what is SIRO doing to address this issue? While pioneers like Dr. Dean continue to spread the word on the capabilities of this technology, one big longer term push for Sirona is introducing CEREC in dental schools around the globe, with the hope of making CAD/CAM education a required part of the dental curriculum. As of now, all dental schools in Germany currently have CAD/CAM in their curriculum, while still only 50% of US dental schools offer this education. US Dental Schools typically have been viewed as conservative in their adoption of new technologies and methods. Currently, some 33 dental schools in the US have CAD/CAM (utilizing CEREC) in its curriculum, and that number is expected to grow to 50 over the next few years.

Dr. Dean continues to see implant procedures make their way into the general practitioner's office, which we've certainly heard before and an area where we'd continue to expect Sirona to expand its product capabilities. Dental implants remain one of the big buzz words in the dental marketplace today, with many vendors' attention being focused on the general practitioners' entry into the single tooth implant market. Only roughly 10% of general practitioners today perform single tooth implant procedures today, with a clear trend to more GP's taking part in this market over the coming years. We would continue to anticipate the introduction of products and services around CEREC that will provide for further facilitation of the general practitioners' entry into the single tooth implant market, which the company notes represents 60-70% of all implants. Specifically, we would not be surprised to see further technology that could allow for in office surgical guides/drilling templates for implants, allowing for faster and more efficient timing for dentists in these procedures. Sirona will continue to focus on its technology providing "everything but the screw" to the implant practitioner in the future.

As well, Patterson has just announced another trade up program in the US for the CEREC line, predominately as a result of the newly introduced CEREC 4.0 released at IDS. Recall CEREC 4.0 presents an upgraded design and user interface for its software, which is both easier to use and faster in performing basic functions. Among the benefits highlighted with the upgrade are that it shortens the learning curve for new users by incorporating an easier and more intuitive interface (the learning curve represents somewhat of a barrier to market penetration), making it easier for new users to get used to the system. In addition, the new software offers additional capabilities, including the ability to perform up to 32 restorations at once (versus 1 before). At prior dental shows, we saw that one of the advantages of the E4D product was that it was able to perform 16 restorations at once versus CEREC at 1. Therefore, we were not surprised to see SIRO looking to outpace E4D in this area. The new CEREC software will be made available to CEREC club members and will be incorporated in new CEREC sales beginning in the fall of 2011. While there has been some lumpiness in results from Patterson as a result of its trade-up programs in the past, we note these initiatives have been overall successful in the past, and while we wouldn't define the 4.0 software as game changing, we'd expect another successful trade up program from Patterson. We'll look to get more details when PDCO reports Q4 results next Thursday.

The company expects the momentum in its imaging segment to continue into the back half of the year, with particular interest in SIRO's 2D and newly introduced Orthophos 2D/3D product lines. The company saw particularly strong interest in its Orthophos product line in Q2, with the XG 3D product launch receiving high levels of interest in the marketplace. Recall that the Orthophos XG 3D is a combined 2D/3D product, which Sirona believes fills an important gap between traditional 2D only and 3D only offerings. Further,

Sirona believes that the general practitioner market, which is the smallest part of the implantology market, is an attractive market to sell a combined 2D/3D offering, and that its product is well positioned to capture general practitioners who are considering conducting single implants in their offices. While CAD/CAM gets much investor attention for Sirona, we continue to believe the imaging segment represents a very meaningful opportunity for growth for the company over the next several years, with Q2 and what we expect to be a strong 2H a manifestation of these opportunities.

While capital allocation has never been a big talking point for Sirona with debt pay down the principal use of cash, we believe cash use will become a bigger topic of discussion and differentiation in F12 with over \$300 million now on the balance sheet. As we heard, Sirona's debt is due to be paid in November of this year, with capital allocation becoming a bigger topic of discussion for the board following the completion of this paydown. As we heard from Sweeney, Sirona's strategy is not to build high levels of cash on its balance sheet, but rather to dispense it in a disciplined, effective manner. While the board still has to ultimately decide what the most appropriate use of this cash will be, all options including a dividend, share repurchases, and a selective acquisition strategy seem to be all on the table as possibilities here. All this said, while this Sirona story has been one of impressive organic growth, we would not be surprised to see some acquisitions from the company beginning in the back half of F12 as the company looks to augment its footprint both geographically and from a product standpoint.

We were very appreciative of Dr. Vafiadis's time and perspectives, and look forward to reading his upcoming published reports.

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Primary Stocks (Ticker, Date, Price)

Sirona Dental Systems Inc. (SIRO, 18-May-2011, USD 54.40), 1-Overweight/2-Neutral

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1-Positive - sector coverage universe fundamentals/valuations are improving.

2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "sector coverage universe":

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Catalyst Health Solutions, Inc. (CHSI)	Charles River Laboratories (CRL)	Covance Inc. (CVD)
Dentsply International (XRAY)	Emdeon Inc. (EM)	ExamWorks Group, Inc. (EXAM)
Express Scripts (ESRX)	Gentiva Health Services (GTIV)	Henry Schein (HSIC)
ICON plc (ICLR)	Kendle International Inc. (KNDL)	McKesson Corp. (MCK)
MedAssets Inc. (MDAS)	Medco Health Solutions (MHS)	Owens & Minor (OMI)
PAREXEL International (PRXL)	Patterson Companies (PDCO)	PPD Inc. (PPDI)
PSS World Medical (PSSI)	Sirona Dental Systems Inc. (SIRO)	SXC Health Solutions Corp. (SXCI)
West Pharmaceutical Svcs (WST)		

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Sirona Dental Systems Inc. (SIRO)

USD 54.40 (18-May-2011)

Stock Rating

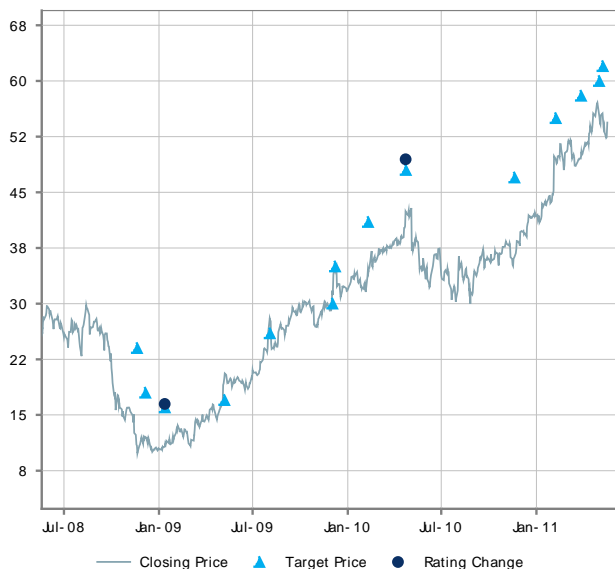
1-OVERWEIGHT

Sector View

2-NEUTRAL

Rating and Price Target Chart - USD (as of 18-May-2011)

Currency=USD



Date	Closing Price	Rating	Price Target
09-May-2011	55.63		62.00
02-May-2011	55.56		60.00
28-Mar-2011	49.54		58.00
07-Feb-2011	49.54		55.00
19-Nov-2010	36.21		47.00
23-Apr-2010	42.43	1-Overweight	48.00
09-Feb-2010	34.67		41.00
07-Dec-2009	34.94		35.00
02-Dec-2009	31.75		30.00
03-Aug-2009	28.00		26.00
07-May-2009	19.94		17.00
12-Jan-2009	10.72	2-Equal Weight	16.00
05-Dec-2008	12.06		18.00
19-Nov-2008	10.86		24.00

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Valuation Methodology: Our \$62 price target represents 18.3x our C12 Cash EPS estimate of \$3.40.

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