



DEPARTMENT OF ECONOMICS AND FINANCE
BSC «ECONOMICS AND BUSINESS»
CHAIR OF CORPORATE FINANCE

**«DENTSPLY SIRONA'S INVESTIGATION ON 2021 FINANCIAL
RESULTS: A CASE STUDY»**

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With gratitude,
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Abstract

This thesis explores a key event in the dentistry business, with a focus on the Dentsply Sirona firm. Drawing from my 4-month internship, I was able to examine the relationship between the company's financial reporting, internal controls, and corporate governance. Therefore, I center this case on a 2022 internal investigation sparked by the manipulations of 2021 sales figures. The following resulted in inaccurate financial reporting, dwindling investor trust, and executive firings. During my research, I discovered exaggerated internal sales in 2021 disrupted dealer inventory and subsequent purchases, influencing sales predictions for 2022. Overall, this case study highlights the delicate balance that exists between financial performance and ethical behavior in prestigious firms, in this case, a leading dental company.

Introduction

In the dynamic world of business, maintaining competitiveness while adhering to ethical financial practices remains a paramount challenge. This equilibrium is particularly crucial in industries of vital importance, such as medicine and dentistry. With this in mind, in this thesis, I delve into a pivotal event within the dental industry centered around the prestigious firm Dentsply Sirona. Drawing on my firsthand experience during a 4-month internship at the company, I am uniquely poised to explore this case study. Referring to a publicly disclosed event that occurred at the Company in 2022, this document sheds light on the complex interplay between financial reporting, internal controls, and corporate governance.

Dentsply Sirona is one of the leading companies in the dental sector, specializing in the development and making of products, technologies, and solutions for dental professionals and dental technicians. The company offers dental devices and equipment, dental materials, solutions for digital dentistry, and equipment for dental laboratories that have redefined the landscape of modern dentistry by introducing digital solutions and high-precision diagnostic tools.

During my internship at Dentsply Sirona, I gained firsthand insights into the Company's strategic significance within the industry, witnessing its influence on oral health practitioners and the broader healthcare landscape. However, even in industries of such stature, the allure of projecting strong financial performance can sometimes lead organizations down a precarious path.

This thesis's central objective is to comprehensively analyze the internal investigation opened by Dentsply Sirona in 2022. Rooted in the manipulation of 2021 sales data, this event led to misleading financial reporting and a substantial erosion of investor confidence. The scandal led to the dismissal of Dentsply Sirona's CEO and CFO and North American Sales Director. Through a meticulous exploration of this incident, this thesis aims not only to present a chronological account but also to dissect the underlying factors that contributed to its occurrence. I will describe the main specifications used to analyze the case and report the results.

In the first chapter, I will provide an in-depth analysis of the multinational company Dentsply Sirona. Its activities and organization at the sales level will be explored in depth through data and graphs.

In the second chapter, I will primarily display the 2021 quarterly results by describing my research approach, explaining how I collected the data, and how I analyzed it. It, therefore, has the aim of descriptive function and is intended to characterize the sample under analysis.

Finally, in the third chapter I will present the internal investigation in which it was discovered that the huge sales concluded and reported in 2021 were mostly due to internal sales (sell-in) in North America, from Dentsply Sirona to dental dealers, yet had no real match as external sales (sell-out), from the dealers to the dental professionals. As a result of these inflated internal sales in 2021, dealers had full inventories and stopped purchasing equipment in the first quarters of 2022, making Dentsply Sirona's sales forecasts for 2022 incorrect and challenging to justify to the stakeholders.

Chapter 1

1.1 The Firm History: A Theoretical Overview

Dentsply Sirona boasts a rich and storied history that spans an impressive 135 years, during which it has consistently exemplified a commitment to innovation and unwavering service to both the dental industry and patients across the globe. The profound focus on enhancing dentistry and oral health, as well as an array of other consumer medical devices, allows Dentsply Sirona to occupy a paramount role in the realm of healthcare. Additionally, the company's comprehensive portfolio encompasses an extensive range of solutions, underpinned by a remarkable collection of globally recognized brand names, pushing the company to its leader position as the world's largest maker of professional dentistry goods and cutting-edge innovations.

In a compelling comparison with what is often referred to as “The Dental Solutions Company,” Dentsply Sirona's products undoubtedly stand out as beacons of innovation and effectiveness. These solutions represent a quantum leap forward in the realm of patient care, epitomizing the brand's commitment to providing orthodontic approaches that are not only advanced but also remarkably efficient. By fostering faster treatment processes, enhancing safety measures, and amplifying overall effectiveness, Dentsply Sirona reshapes the landscape of orthodontics in a manner that is truly groundbreaking.

It is noteworthy that Dentsply Sirona's ordinary shares are publicly listed on the Nasdaq exchange in the United States, using the distinctive trading symbol “XRAY.” This facet of their presence underscores their global reach and significance, making them an appealing prospect for investors seeking to partner with a frontrunner in the fields of dentistry and medical technology.

1.2 Century-Long Commitment to Modernizing Dentistry and Empowering Professionals

The goal of Dentsply Sirona is to modernize dentistry in order to enhance worldwide oral health and to be the preferred partner for dental schools, clinics, odontogenic laboratories, and authorized global distributors. Its objective is to empower millions of dental professionals throughout the world by inventing unique methods to give the finest dental services to millions of patients in order to attain

healthy sorrows. Therefore, the company’s goods and solutions reach 600,000 dental care industry experts each year, who treat over 6,000 patients per day, for a total of one million patients each year. For more than a century, professionals have been committed to the quality and clinical safety of their goods.

1.3 The Innovation Brought To The Dental Field

The first dental drill, the first reciprocating root canal file, and, of course, the first chairside CAD/CAM system¹ were all developed by Dentsply and Sirona over the course of the last century as separate businesses, and they both made significant investments in innovation, new product development, and the broadest clinical education platform in the sector. Technologies & equipment and consumables are the two main product categories.

Dentsply Sirona’s persistent dedication to innovation lies at the company’s core.

| SEGMENTS | TECHNOLOGIES & EQUIPMENT | | | | | CONSUMABLES | | | | |
|-------------------------|--|---|--|---|--|--|--|--|---|---|
| | Digital Solutions | Enabling Devices | Orthodontics | Implant Solutions | Healthcare | Single Unit Crown (Indirect) | Root Canal Treatment | Preventive Procedures | Digital Lab | Class II (Direct) |
| WELL-ESTABLISHED BRANDS | DS Core Axeos® Orthophos® Sidexis® 4 Schick Primescan® CEREC Primemill® Primeprint® | Axano® Sinius® Intego® SiroLaser DAC TI-T4 instrument series | SureSmile® Aligners byte ® | Astra Tech Implant EV PrimeTaper EV OmniTaper EV Atlantis® Simplant® OSSIX ® MIS | Wellspect® LoFric ® Navina ™ | Aquasil Ultra+ Smart Wetting Impression Material CEREC Tessera CEREC MTL Zirconia Calibra Cements | ProTaper Ultimate WaveOne® Gold AH Plus® VDW | Cavitron® Cavitron® Slimline® Nupro® | Cercon ht ML Cercon xt ML Lucitone Digital Print Denture System | Palodent V3 Sectional Matrix System Palodent 360 Spectra ST Universal Composite Restorative SmartLite Pro Surefil one |

Figure 1- The range of products and services the company offers.

¹ A chairside CAD/CAM system refers to a computer-aided design (CAD) and computer-aided manufacturing (CAM) system that is used directly at the dentist’s or physician’s chair.

The company has the largest R&D² platform with over 600 scientists and engineers and invests over \$125 million annually to enhance dentistry. Dentsply Sirona Research generates the knowledge and insight required to build cutting-edge solutions. These research initiatives allow the company to introduce more than 30 cutting-edge products that enhance oral care each year. Dentsply Sirona is currently involved in more than 50 clinical trials at some of the most prestigious universities and private practices in the world. These studies test new technologies to show that they are risk-free, efficient, and reliable for usage.

Over 300,000 professionals are regularly educated by the Dentsply Sirona Academy in nearly 8,000 clinical courses throughout 80 nations.

The Company sells its products and technologies worldwide through a dual channel sale model: directly, from Dentsply Sirona to the dentist or lab technician, via a dedicated force of sales reps, and indirectly, from Dentsply Sirona to dental dealers who then sell the product to the dental professionals through their own sales forces.

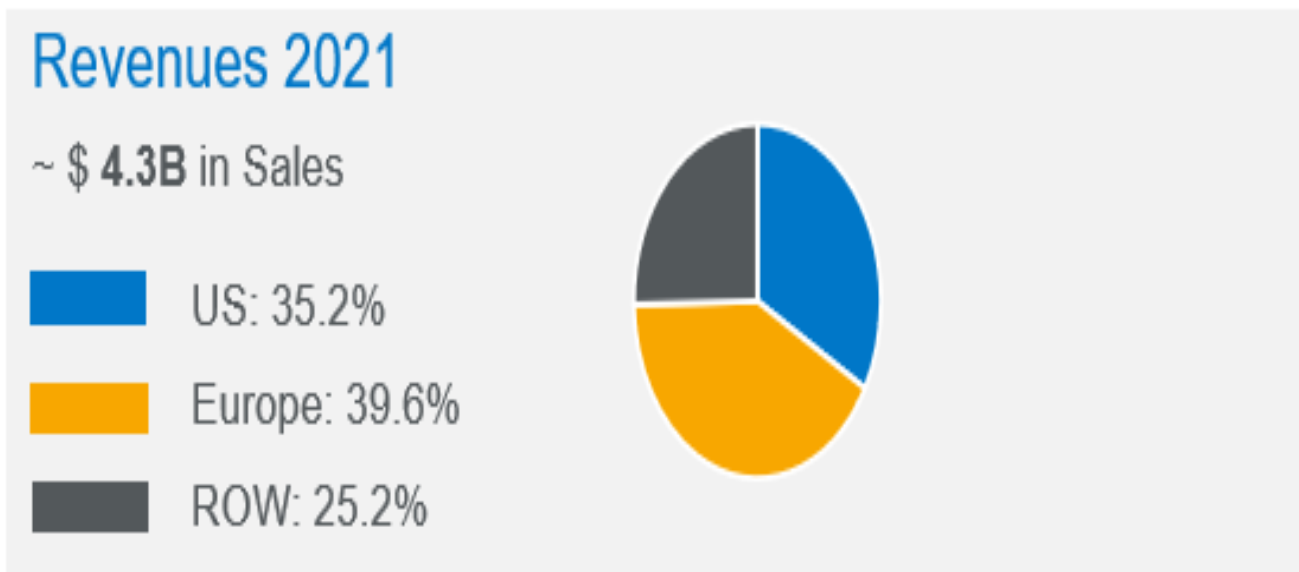


Figure 2 - 2021 earnings source chart

² R&D platform” is a term that refers to a research and development platform (R&D, short for Research and Development) that is used by a company or organization to conduct research and development of new products, technologies, or solutions.

Chapter 2

2.1 The Firm Balance

Dentsply Sirona's full-year net sales of \$4,251 million in 2021 climbed 27.2% from \$3,342 million in 2020. The company's net income was \$421 million, or \$1.91 per diluted share, compared to a loss of (\$83) million, or (\$0.38) per diluted share, for the full fiscal year 2020. Adjusted earnings³ per diluted share increased to \$2.87 from \$1.79 in 2020. Adjusted EBITDA⁴ for the whole fiscal year 2021 was \$992 million, up from \$666 million in 2020. Non-GAAP measures⁵ (including organic sales, adjusted operating income and margin, adjusted EPS, and adjusted EBITDA) are reconciled to GAAP measures below.

Management believes that these non-GAAP measures are helpful as they provide another measure of the results of operations and are frequently used by investors and analysts to evaluate the Company's performance exclusive of certain items that impact the comparability of results from period to period, and which may not be indicative of past or future performance of the Company.

Net sales of \$1,088 million in the fourth quarter of 2021 climbed 0.6% from \$1,082 million in the fourth quarter of 2020. In the fourth quarter of 2020, net income was \$102 million, or \$0.47 per diluted share, compared to \$99 million, or \$0.45 per diluted share. Adjusted earnings per diluted share fell to \$0.76 in the fourth quarter of 2020, from \$0.87 in the previous quarter.

“Our 2021 performance reflects the strength of our global portfolio, the resilience of the dental market, and our team's ability to execute well in an environment still impacted by the pandemic.”

³ Adjusted earnings (loss) (EPS) per diluted share is computed by dividing diluted adjusted earnings (losses) attributable to Dentsply Sirona shareholders by the diluted weighted average number of common shares outstanding.

⁴ Adjusted EBITDA is computed by excluding interest, income tax expense, depreciation and amortization, as well as the adjustments described above for computing Adjusted Operating Income.

⁵ These Non-GAAP measures are used by the Company to measure its performance and may differ from those used by other companies.

“We generated exceptional results, with approximately 25% organic sales⁶ growth, double-digit EPS growth, and solid cash flow creation. We made significant progress on the commitments we made three years ago to strengthen the business’ foundation and position it for long-term sustainable growth,” said Don Casey, CEO. “We are upbeat about our prospects.” To drive our growth, we have a healthy innovation pipeline, a well-positioned portfolio, and new strategic collaborations. “Dental is an appealing sector, and we will lead the digital dentistry revolution in support of our aim to offer new solutions for healthy smiling.”

Q4 21 and FY 21 Summary Results (GAAP)

| (in millions, except per share amount and percentages) | Q4 21 | Q4 20 | YoY | FY 21 | FY 20 | YoY |
|--|-------|-------|-------|-------|--------|-------|
| Net Sales | 1,088 | 1,082 | 0.6% | 4,251 | 3,342 | 27.2% |
| Operating income (loss) | 154 | 135 | 14.2% | 622 | (12) | NM |
| Operating income % | 14.2% | 12.5% | | 14.6% | (0.4%) | |
| Diluted EPS | 0.47 | 0.45 | 3.5% | 1.91 | (0.38) | NM |

NM - not meaningful

* Percentages are based on actual values and may not recalculate due to rounding.

Q4 21 and FY 21 Summary Results (Non-GAAP)^[1]

| (in millions, except per share amount and percentages) | Q4 21 | Q4 20 | YoY | FY 21 | FY 20 | YoY |
|--|-------|-------|---------|-------|-------|-------|
| Net Sales | 1,088 | 1,082 | 0.6% | 4,251 | 3,342 | 27.2% |
| Organic Sales Growth % | | | 1.8% | | | 24.6% |
| Adj. Operating income | 217 | 251 | (13.7%) | 871 | 537 | 62.3% |
| Adj. Operating income % | 20.0% | 23.2% | | 20.5% | 16.1% | |
| Adj. EPS | 0.76 | 0.87 | (12.6%) | 2.87 | 1.79 | 60.3% |

^[1] Organic sales growth, adjusted operating income, and adjusted EPS are Non-GAAP financial measures which exclude certain items. Please refer to "Non-GAAP Financial Measures" below for a description of these measures and to the tables at the end of this release for a reconciliation between GAAP and Non-GAAP measures.

* Percentages are based on actual values and may not recalculate due to rounding.

Figure 3 - An example of quarter 4 and Fiscal year (FY) 2021 results

⁶ The Company defines “organic sales” as the reported net sales adjusted for: (1) net sales from acquired and divested businesses recorded prior to the first anniversary of the acquisition or divestiture, (2) net sales attributable to discontinued product lines in both the current and prior year periods, and (3) the impact of foreign currency translation, which is calculated by translating current period net sales using the comparable prior period’s currency exchange rates.

2.2 Segment Results: Technology and Equipment

Net sales for the fiscal year 2021 were \$2,524 million, a 28.7% increase over the previous year. Net sales climbed by 23.2% on an organic basis compared to the previous year. Currency had a 2.9% positive impact on sales, acquisitions had a 9.0% positive impact on sales, and divestitures and discontinued items had a 6.4% negative impact on sales. Year on year, sales increased in all product categories.

Net sales in the fourth quarter of 2021 totaled \$676 million, a 6.8% increase over the previous year. Net revenues climbed 6.5% on a natural basis over the previous year. Currency had a negative impact on sales (1.8%), acquisitions increased sales by 5.7%, and divestitures and discontinued items had a negative impact on sales (3.6%). Organic sales increased primarily due to excellent growth in CAD/CAM, Implants, and Orthodontics, which was offset in part by supply chain restrictions.

2.3 Consumables

Net sales for the fiscal year 2021 were \$1,727 million, a 25.0% increase over the previous year. Net revenues climbed by 26.7% on an organic basis. Currency had a 2.8% positive influence on sales while divesting and discontinued items had a (4.5%) negative impact on sales. Year on year, sales increased in all product categories.

Net sales in the fourth quarter of 2021 were \$412 million, a decrease of 8.3% from the previous year. Net sales fell by (4.6%) on an organic basis. Currency had a negative impact on sales by (0.7%), while divestitures and discontinued items had a negative impact on sales by (3.0%). The organic sales reduction was caused by a difficult comparison to the prior year due to the COVID-19 comeback and purchase timing ahead of the yearly price rise, which was somewhat offset by increased pricing.

2.4 Cash Flow and Liquidity

Operating cash flow was \$222 million in the fourth quarter of 2021, down from \$263 million the previous year. Operating cash flow for the full year 2021 was \$657 million, up from \$635 million the previous year. The Company paid \$24 million in dividends and \$110 million in share repurchases in the fourth quarter, for a total of \$292 million returned to shareholders in 2021. The Company had \$339 million in cash on its balance sheet as of December 31, 2021.

2.5 Full Year 2022 Outlook

Organic sales growth of 4% to 5% is expected in 2022, with net sales estimated to be \$4.3 to \$4.4 billion. The adjusted operating income margin⁷ for the full year is forecast to be better than 21%, with a target of 22% by the fourth quarter of 2022. Adjusted EPS is expected to be in the \$3.05 to \$3.25 range, up 6% to 13% year on year.

2.6 Recent Announcements & Additional Highlights

Quarterly Cash Dividend Increased: The Board of Directors of Dentsply Sirona approved a double-digit increase in the quarterly dividend rate of the Company on February 23, 2022, from the previous rate of \$0.11 per share of common stock to \$0.125 per share. To investors with records as of March 25, 2022, the dividend is payable on April 8, 2022.

Prime print: dental offices in 2022, as it was announced on February 25. As a smart hardware and software solution that is tailored for dental applications and manages the entire printing process, including post processing, Prime print will have one of the greatest degrees of automation.

Google Cloud Collaboration: As of February 25, 2022, Dentsply Sirona and Google Cloud will work together to create a digital ecosystem that will enable end-to-end processes in dental offices in order to assist dentists and dental labs in maximizing the advantages of digital dentistry.

New Board & Executive Team Members: As a member of the Audit and Finance Committee and the Board of Directors, Dr. Dorothea Wenzel has been chosen. Cherée Johnson will also be headquartered at the company's headquarters in Charlotte, North Carolina, and will join Dentsply Sirona at the end of February as its Senior Vice President, Chief Legal Officer, General Counsel, and Secretary.

⁷ Adjusted operating income (loss) is computed by excluding the following items from operating income: Business combination related costs and fair value adjustments. These adjustments include costs related to consummating and integrating acquired businesses, as well as net gains and losses related to the disposed businesses.

Share Repurchase Program: The company spent \$110 million to buy back 2 million shares in Q4 2021. For a total of \$200 million for the fiscal year that concluded on December 31, 2021, the company bought back 3.5 million shares. The \$1 billion share repurchase program had \$890 million of authorization remaining as of December 31, 2021.

3Shape Partnership: Dentsply Sirona and 3Shape increased their strategic relationship as of December 8, 2021, with an emphasis on seamless connection for dentists and dental labs. The lab software from 3Shape now seamlessly integrates with the Dentsply Sirona Primes can and Omnicom scanners.

DENTSPLY SIRONA INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions)
(unaudited)

| | December 31, 2021 | December 31, 2020 |
|---|-------------------|-------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 339 | \$ 438 |
| Accounts and notes receivable-trade, net | 747 | 673 |
| Inventories, net | 504 | 466 |
| Prepaid expenses and other current assets | 247 | 214 |
| Total Current Assets | 1,837 | 1,791 |
| Property, plant and equipment, net | 773 | 791 |
| Operating lease right-of-use assets, net | 193 | 176 |
| Identifiable intangible assets, net | 2,319 | 2,504 |
| Goodwill, net | 3,976 | 3,986 |
| Other noncurrent assets | 122 | 94 |
| Total Assets | \$ 9,220 | \$ 9,342 |
| Liabilities and Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 268 | \$ 305 |
| Accrued liabilities | 679 | 653 |
| Income taxes payable | 57 | 60 |
| Notes payable and current portion of long-term debt | 182 | 299 |
| Total Current Liabilities | 1,186 | 1,317 |
| Long-term debt | 1,913 | 1,978 |
| Operating lease liabilities | 145 | 130 |
| Deferred income taxes | 408 | 393 |
| Other noncurrent liabilities | 525 | 554 |
| Total Liabilities | 4,177 | 4,372 |
| Total Equity | 5,043 | 4,970 |
| Total Liabilities and Equity | \$ 9,220 | \$ 9,342 |

Figure 4 - The Table shows the Condensed Consolidated Balance Sheets

DENTSPLY SIRONA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share amounts and percentages)
(unaudited)

| | Three Months Ended December 31, | | Year Ended December 31, | |
|---|------------------------------------|--------------|----------------------------|----------------|
| | 2021 | 2020 | 2021 | 2020 |
| Net sales | \$ 1,088 | \$ 1,082 | \$ 4,251 | \$ 3,342 |
| Cost of products sold | 495 | 511 | 1,890 | 1,685 |
| Gross profit | 593 | 571 | 2,361 | 1,657 |
| Selling, general and administrative expenses | 374 | 377 | 1,551 | 1,312 |
| Research and development expenses | 59 | 44 | 171 | 123 |
| Goodwill impairment | — | — | — | 157 |
| Restructuring and other costs | 6 | 15 | 17 | 77 |
| Operating income (loss) | 154 | 135 | 622 | (12) |
| Net interest and other expense (income), net | 16 | 12 | 63 | 48 |
| Income (loss) before income taxes | 138 | 123 | 559 | (60) |
| Provision for income taxes | 36 | 24 | 138 | 23 |
| Net income (loss) | 102 | 99 | 421 | (83) |
| Less: Net income (loss) attributable to noncontrolling interests | — | — | — | — |
| Net income (loss) attributable to Dentsply Sirona | <u>\$ 102</u> | <u>\$ 99</u> | <u>\$ 421</u> | <u>\$ (83)</u> |
| Net income (loss) per common share attributable to Dentsply Sirona: | | | | |
| Basic | \$ 0.47 | \$ 0.45 | \$ 1.93 | \$ (0.38) |
| Diluted | \$ 0.47 | \$ 0.45 | \$ 1.91 | \$ (0.38) |
| Weighted average common shares outstanding: | | | | |
| Basic | 218.0 | 218.6 | 218.4 | 219.2 |
| Diluted | 219.2 | 219.5 | 220.2 | 219.2 |

Figure 5 - The table shows the Consolidated Statements of Operations of 2020 and 2021

DENTSPLY SIRONA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions) (unaudited)

| | Year Ended December 31, | |
|--|-------------------------|----------------|
| | 2021 | 2020 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 421 | \$ (83) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation | 124 | 142 |
| Amortization of intangible assets | 222 | 192 |
| Fixed asset impairment | — | 3 |
| Goodwill impairment | — | 157 |
| Indefinite lived intangible asset impairment | — | 39 |
| Deferred income taxes | (20) | (64) |
| Stock based compensation expense | 48 | 47 |
| Other non-cash (income) expense | 34 | 2 |
| (Gain) Loss on sale on non-strategic businesses and product lines | (14) | 1 |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Accounts and notes receivable-trade, net | (109) | 126 |
| Inventories, net | (63) | 124 |
| Prepaid expenses and other current assets, net | (35) | 42 |
| Other noncurrent assets | (10) | 1 |
| Accounts payable | (46) | (23) |
| Accrued liabilities | 78 | (17) |
| Income taxes | 17 | (39) |
| Other noncurrent liabilities | 10 | (15) |
| Net cash provided by operating activities | 657 | 635 |
| Cash flows from investing activities: | | |
| Capital expenditures | (142) | (87) |
| Cash paid for acquisitions of businesses and equity investments, net of cash acquired | (248) | (1,078) |
| Cash received on sale of non-strategic businesses or product lines | 28 | 1 |
| Cash received on derivative contracts | 2 | 58 |
| Other investing activities, net | 2 | — |
| Net cash used in investing activities | (358) | (1,106) |
| Cash flows from financing activities: | | |
| Net borrowings on short-term borrowings | 179 | 2 |
| Cash paid for treasury stock | (200) | (140) |
| Cash dividends paid | (92) | (88) |
| Proceeds from long-term borrowings, net of deferred financing costs | 16 | 1,448 |
| Repayments on long-term borrowings | (297) | (701) |
| Payments on terminated derivative instruments | — | (30) |
| Proceeds from exercised stock options | 51 | 11 |
| Other financing activities, net | (36) | (12) |
| Net cash (used in) provided by financing activities | (379) | 490 |
| Effect of exchange rate changes on cash and cash equivalents | (19) | 14 |
| Net (decrease) increase in cash and cash equivalents | (99) | 33 |
| Cash and cash equivalents at beginning of period | 438 | 405 |
| Cash and cash equivalents at end of period | \$ 339 | \$ 438 |
| Supplemental disclosures of cash flow information: | | |
| Interest paid, net of amounts capitalized | \$ 64 | \$ 45 |
| Income taxes paid, net of refunds | \$ 148 | \$ 82 |
| Non-cash investing activities | | |
| Property, plant and equipment in accounts payable at end of period | \$ 33 | \$ 14 |
| Exchange of inventory for naming rights | \$ 2 | \$ 4 |

Figure 6 - The firm's Consolidated Statement of Cash Flows

DENTSPLY SIRONA INC. AND SUBSIDIARIES
(In millions, except percentages)
(unaudited)

| (In millions, except percentages) | Three Months Ended December 31, 2021 | | | | Q4 2021 Change | | | | Three Months Ended December 31, 2020 | | | |
|--|--------------------------------------|--------|--------|----------|----------------|-------------|-------------|-------------|--------------------------------------|--------|--------|----------|
| | US | Europe | ROW | Total | US | Europe | ROW | Total | US | Europe | ROW | Total |
| Net sales | \$ 385 | \$ 437 | \$ 266 | \$ 1,088 | 7.2% | (2.4%) | (3.4%) | 0.6% | \$ 359 | \$ 448 | \$ 275 | \$ 1,082 |
| Foreign exchange impact | | | | | (0.8%) | (1.6%) | (1.5%) | (1.3%) | | | | |
| Acquisitions | | | | | 9.3% | —% | 0.9% | 3.3% | | | | |
| Divestitures and discontinued products | | | | | (1.6%) | (2.6%) | (5.7%) | (3.2%) | | | | |
| Organic sales | | | | | <u>0.3%</u> | <u>1.8%</u> | <u>4.0%</u> | <u>1.8%</u> | | | | |

* Percentages are based on actual values and may not recalculate due to rounding.

| (In millions, except percentages) | Year Ended December 31, 2021 | | | | 2021 Change | | | | Year Ended December 31, 2020 | | | |
|--|------------------------------|----------|----------|----------|--------------|--------------|--------------|--------------|------------------------------|----------|--------|----------|
| | US | Europe | ROW | Total | US | Europe | ROW | Total | US | Europe | ROW | Total |
| Net sales | \$ 1,497 | \$ 1,685 | \$ 1,069 | \$ 4,251 | 35.0% | 21.5% | 26.4% | 27.2% | \$ 1,109 | \$ 1,387 | \$ 846 | \$ 3,342 |
| Foreign exchange impact | | | | | 0.3% | 4.7% | 3.2% | 2.9% | | | | |
| Acquisitions | | | | | 15.4% | —% | 1.0% | 5.4% | | | | |
| Divestitures and discontinued products | | | | | (4.9%) | (4.7%) | (8.3%) | (5.7%) | | | | |
| Organic sales | | | | | <u>24.2%</u> | <u>21.5%</u> | <u>30.5%</u> | <u>24.6%</u> | | | | |

* Percentages are based on actual values and may not recalculate due to rounding.

A reconciliation of reported net sales to organic sales by segment is as follows:

| (In millions, except percentages) | Three Months Ended December 31, 2021 | | | Q4 2021 Change | | | Three Months Ended December 31, 2020 | | |
|--|--------------------------------------|-------------|----------|--------------------------|---------------|-------------|--------------------------------------|-------------|----------|
| | Technologies & Equipment | Consumables | Total | Technologies & Equipment | Consumables | Total | Technologies & Equipment | Consumables | Total |
| Net sales | \$ 676 | \$ 412 | \$ 1,088 | 6.8% | (8.3%) | 0.6% | \$ 633 | \$ 449 | \$ 1,082 |
| Foreign exchange impact | | | | (1.8%) | (0.7%) | (1.3%) | | | |
| Acquisitions | | | | 5.7% | —% | 3.3% | | | |
| Divestitures and discontinued products | | | | (3.6%) | (3.0%) | (3.2%) | | | |
| Organic sales | | | | <u>6.5%</u> | <u>(4.6%)</u> | <u>1.8%</u> | | | |

* Percentages are based on actual values and may not recalculate due to rounding.

| (In millions, except percentages) | Year Ended December 31, 2021 | | | 2021 Change | | | Year Ended December 31, 2020 | | |
|--|------------------------------|-------------|----------|--------------------------|--------------|--------------|------------------------------|-------------|----------|
| | Technologies & Equipment | Consumables | Total | Technologies & Equipment | Consumables | Total | Technologies & Equipment | Consumables | Total |
| Net sales | \$ 2,524 | \$ 1,727 | \$ 4,251 | 28.7% | 25.0% | 27.2% | \$ 1,961 | \$ 1,381 | \$ 3,342 |
| Foreign exchange impact | | | | 2.9% | 2.8% | 2.9% | | | |
| Acquisitions | | | | 9.0% | —% | 5.4% | | | |
| Divestitures and discontinued products | | | | (5.4%) | (4.5%) | (5.7%) | | | |
| Organic sales | | | | <u>23.2%</u> | <u>25.7%</u> | <u>24.6%</u> | | | |

* Percentages are based on actual values and may not recalculate due to rounding.

Figure 7 -The tables show the reconciliation of reported Net Sales to Organic Sales by Segments

DENTSPLY SIRONA INC. AND SUBSIDIARIES
(In millions, except per share amounts and percentages)
(unaudited)

For the year ended December 31, 2020, a reconciliation of select items as reported in the Condensed Consolidated Statements of Operations to adjusted Non-GAAP items is as follows:

| (In millions, except per share amounts and percentages) | GAAP | | | | | | | ADJUSTED NON-GAAP | |
|---|---------------------------------------|---|---|---|--|------------------------------------|--------------------------------|----------------------------|---------------------------------------|
| | Twelve Months Ended December 31, 2020 | Amortization of Purchased Intangible Assets | Restructuring Program Related Costs and Other Costs | Business Combination Related Costs and Fair Value Adjustments | Fair Value and Credit Risk Adjustments | Tax Impact of Non-GAAP Adjustments | Income Tax Related Adjustments | Total Non-GAAP Adjustments | Twelve Months Ended December 31, 2020 |
| GROSS PROFIT | \$ 1,657 | 118 | 44 | 5 | — | — | — | \$ 167 | \$ 1,824 |
| % OF NET SALES | 49.6% | | | | | | | | 54.6% |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | 1,312 | (74) | (57) | (17) | — | — | — | (148) | 1,164 |
| % OF NET SALES | 39.3% | | | | | | | | 34.8% |
| RESEARCH AND DEVELOPMENT EXPENSES | 123 | — | — | — | — | — | — | — | 123 |
| GOODWILL IMPAIRMENT | 157 | — | (157) | — | — | — | — | (157) | — |
| RESTRUCTURING AND OTHER COSTS | 77 | — | (77) | — | — | — | — | (77) | — |
| OPERATING (LOSS) INCOME | (12) | 192 | 335 | 22 | — | — | — | 549 | 537 |
| % OF NET SALES | (0.4%) | | | | | | | | 15.1% |
| OTHER INCOME AND EXPENSE | 48 | — | — | — | (9) | — | — | (9) | 39 |
| (LOSS) INCOME BEFORE INCOME TAXES | (60) | 192 | 335 | 22 | 9 | — | — | 558 | 498 |
| PROVISION FOR INCOME TAXES | 23 | — | — | — | — | 90 | (9) | 81 | 104 |
| % OF PRE-TAX (LOSS) INCOME | (38.3%) | | | | | | | | 20.9% |
| NET (LOSS) INCOME ATTRIBUTABLE TO DENTSPLY SIRONA | \$ (83) | | | | | | | \$ 477 | \$ 394 |
| % OF NET SALES | (2.5%) | | | | | | | | 11.8% |
| (LOSS) EARNINGS PER SHARE - DILUTED | \$ (0.38) | | | | | | | \$ 2.17 | \$ 1.79 |

For the year ended December 31, 2020, the following table presents the details of the "Restructuring program related costs and other costs" column in the above table and the affected line item in the Consolidated Statements of Operations:

| (In millions) | Asset Impairments | Severance Costs Related to Executives | Costs Related to Restructuring Plans | Professional Services Costs | Incentive Compensation | Total |
|---|-------------------|---------------------------------------|--------------------------------------|-----------------------------|------------------------|--------|
| Cost of products sold | \$ — | \$ — | \$ 44 | \$ — | \$ — | \$ 44 |
| Selling, general, and administrative expenses | — | 10 | 2 | 43 | 2 | 57 |
| Goodwill Impairment | 157 | — | — | — | — | 157 |
| Restructuring and other costs | 47 | — | 30 | — | — | 77 |
| Total | \$ 204 | \$ 10 | \$ 76 | \$ 43 | \$ 2 | \$ 335 |

A reconciliation of Adjusted EBITDA for the years ended December 31, 2021 and 2020 is as follows:

| (in millions) | 2021 | 2020 |
|---|---------------|----------------|
| GAAP net income (loss) | \$ 421 | \$ (83) |
| Interest expense, net | 55 | 47 |
| Income tax expense | 138 | 23 |
| Depreciation ⁽¹⁾ | 117 | 121 |
| Amortization of purchased intangible assets | 222 | 192 |
| Restructuring program related costs and other costs | 13 | 335 |
| Business combination related costs and fair value adjustments | 3 | 22 |
| Fair value and credit risk adjustments | 23 | 9 |
| Adjusted EBITDA | \$ 992 | \$ 666 |

⁽¹⁾ Excludes those depreciation related amounts which were included as part of the business combination related adjustments below.

Figure 8 - The table presents a reconciliation of Select Items as reported in the Condensed Consolidated Statements of Operations to adjusted non-GAAP items as follows.

Figure 9 - In the table are shown the details of Restructuring program-related costs and other costs for the year ended December 31, 2020, and the affected line item in the Consolidated Statement of operations.

Chapter 3

3.1 Dentsply Sirona Overstated Net Income and Net Sales In 2021

Dentsply Sirona was plagued by a series of dramatic events in 2022: CEO Donald M. Casey was fired without cause, CFO Jorge Gomez quit abruptly, and the business no longer conforms with Nasdaq listing regulations.

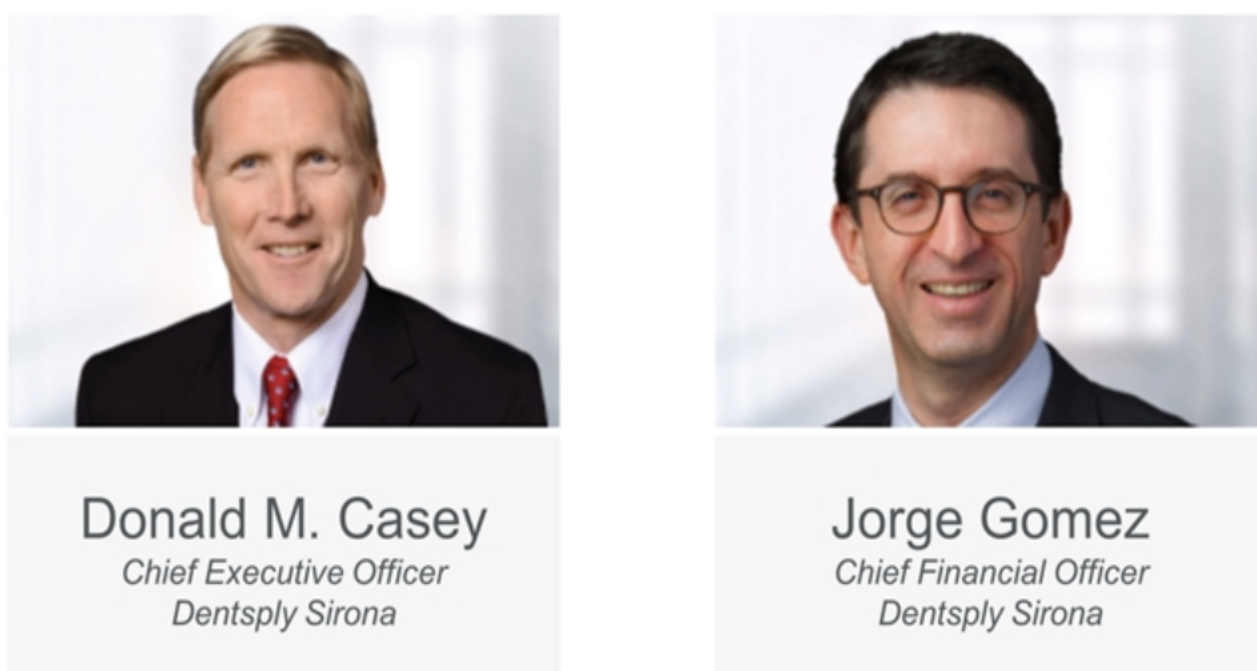


Figure 10 - The CEO (Donald M. Casey) and CFO (Jorge Gomes) who were fired when the investigation was launched.

The Company has publicly disclosed that Dentsply Sirona's Audit and Finance Committee has launched an internal investigation into whether the use of incentives to sell products to certain distributors in North America was properly accounted for in the third and fourth quarters of 2021, as well as allegations that certain former senior executives directed the use of incentives to meet executive compensation targets. This maneuver caused Dentsply Sirona's stocks to fall on the stock exchange.



Figure 12 - The graph shows the fall of the company’s stock on the stock exchange after the announcement of the internal investigation.

The Company initiated the internal investigation in March but did not announce it until 10 May 2022, after disclosing that it was unable to file its Q1 2022 financial report due to the internal investigation.

At the end of October 2022, a report was filed with the US Securities and Exchange Commission (SEC) outlining the results of the investigation. The report determined that Dentsply Sirona’s financial statements for the three and nine-month periods ended 30 September 2021, could no longer be relied upon, and that the third quarterly and full-year annual reports would have to be amended.

While concluding that there was no evidence of intentional wrongdoing or fraud, the former CEO and former CFO specifically directed the Company’s use of incentives to meet executive compensation targets in 2021,” the Company, its Audit and Finance Committee stated, determined that certain former executives including the former CEO and CFO violated provisions of the Company’s Code of Ethics and Business Conduct, failed to maintain and foster “an appropriate control environment” and “created a culture in which employees did not feel comfortable raising concerns without fear of retaliation.”

3.2 The Investigation of North America

The inquiry discovered accounting mistakes in the recording of incremental customer incentive arrangements for Dentsply Sirona's operations in North America. According to the filing, the investigation discovered some instances in which the company's distributors in North America were given "incremental incentives," such as longer payment terms, to help them meet specific internal sales targets in the third and fourth quarters of 2021.

According to the filing, these incentives were provided in conjunction with net sales transactions totaling about \$38 million and \$70 million in the third and fourth quarters of 2021, respectively. As a result, distributor inventory levels were higher at the end of the periods, and sales to these distributors were lower in the first and second quarters of 2022.

Despite having no connection to the transactions that were the initial focus of the internal investigation, these incentives and the sales to which they were applied helped the business surpass analysts' estimates in the third quarter of 2021.

3.3 The Investigation of China

Separately, the audit and finance committee broadened its probe to look into larger returns of goods from Chinese distributors in the fourth quarter of 2021, which were at odds with prior patterns, according to the document.

The investigation concluded that members of the Company's local team in China failed to give the local accounting organization the information they had been asked for and lacked "truthfulness" in their communication with the Company and the audit and finance committee.

Investigators investigated Dentsply Sirona's operations in China and discovered that the company had handled returns and exchanges in violation of clauses in distributor agreements and sales contracts. They did this by analyzing non-typical rates of product returns from distributors in China during the fourth quarter of 2021. According to the filing, members of Dentsply Sirona's local commercial team in China, including the leader of the company's Asia Pacific business, engaged in intentional wrongdoing by

obstructing the work of the local accounting team, failing to provide requested information to them, and lying to them when they provided information to the committee, violating the company's code of ethics and business conduct.

3.4 Resolution and Examination Of The Issues

Due to the inconsistencies found during the two regional investigations as well as some other unnamed faults, Dentsply Sirona inflated their net sales and net profits for the first nine months of 2021. Net sales for the nine-month period were exaggerated by US\$35 million (€30 million, on 30 September 2021 exchange rates) in the company's third-quarter report for 2021, and net income was US\$27 million greater than it should have been.

Looking back to the disputed quarterly report, Dentsply reported US\$319 million in net profitability for the first nine months of 2021. Even after deducting the overstated number, this represents an impressive turnaround from the US\$182 million loss the business reported for the same period in pandemic-hit 2020.

The board of directors of the corporation, led by Eric Brandt, expressed its full support for the investigation's findings and conclusions in a statement on November 1st, 2022. Brandt stated: "The company has already taken decisive and meaningful steps to address the findings and is now implementing enhancements and remedial measures to ensure these issues are thoroughly resolved. With a management team that is committed to accountability, operational rigor, and integrity, coupled with the remedial measures, the entire Dentsply Sirona organization can move forward focused on delivering long-term growth and value creation."

On October 29, 2022, the Company determined that its consolidated financial statements and related disclosures for the three and nine months ended September 30, 2021, as well as for the fiscal year ended December 31, 2021, should no longer be relied upon due to certain inaccuracies in those financial statements. This decision was made in consultation with the Audit and Finance Committee. The Company has decided that it is appropriate to amend both its Annual Report on Form 10-K for the fiscal year ended December 31, 2021 (the "2021 Form 10-K/A") and its Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2021 (the "Third Quarter 2021 Form 10-Q/A") in order to correct the errors in the Company's previously published financial statements.

This finding was addressed by the Audit and Finance Committee, management, and PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm.

3.5 Controls and Procedures

Management reassessed the efficiency of the Company's internal control over financial reporting and its disclosure controls and procedures in connection with the restatement of the financial statements and related disclosures in the Third Quarter 2021 Form 10-Q/A and the 2021 Form 10-K/A. As of September 30, 2021, one or more material weaknesses were found in the Company's internal control over financial reporting. As of both the date of the 8-K and December 31, 2021, the material vulnerabilities were still present.

The management of the company has begun putting certain improvements and corrective actions into place for its internal controls and disclosure controls and procedures. Management will keep reviewing the controls, processes, and procedures to determine whether any additional adjustments are needed.

In relation, for the nine months that ended on September 30, 2022, the company anticipated recording a pre-tax non-cash charge of between \$1.0 billion and \$1.3 billion for the impairment of goodwill and intangible assets. This was primarily because of macroeconomic factors like higher capital costs, cost inflation, unfavorable foreign exchange impacts, and higher supply chain costs, which resulted in lower forecasted revenues, lower operating margins, and lower expectations for the future.

3.6 Select Preliminary Third Quarter 2022 Results and Fourth Quarter 2022 Revenue Outlook

Initially, the company projected that third-quarter 2022 net sales would be at \$947 million (marking a small fall in organic sales compared to the preceding year). These results are down from the same period last year due to foreign exchange headwinds, issues with the global supply chain, and lower volume in the US and China.

The company anticipates that sequential Net sales will decrease in the low-single digits in the fourth quarter of 2022 based on anticipated demand trends and the effects of foreign exchange. The company anticipates that sequential Net sales will be unchanged or increased by low single digits in the fourth quarter of 2022 when measured in constant currency. During the company's third-quarter earnings

conference call, additional details regarding its outcomes and 2022 forecast assumptions will be provided.

The figures listed above are only rough estimations. The Company is now completing the third quarter results of operations for the period ended September 30, 2022. As of this news release date, management had no other sources of information upon which to build these preliminary projections. The Company's actual results could deviate from these projections as a result of the completion of its quarter-end closing processes, final adjustments, and any new information that could emerge before the Company's financial results for the three and nine months ended September 30, 2022, are finalized and included in its Form 10-Q.

As mentioned before, the incident had an immediate impact on the company's stock, which dropped from a high of \$66.80 at the end of 2021 to a low of \$28.08 at the end of 2022.

Conclusions

Even though Dentsply Sirona ended its 2021 financial statements on a high note, an inquiry showed that the statistics of their sales had been boosted by shady trading practices.

As a matter of fact, the inquiry uncovered several instances in which the company's North American distributors were given "incremental incentives," such as longer payment periods, to buy goods in order to hit specific internal sales goals for the third and fourth quarters of 2021.

The dealers had not sold this equipment to dental professionals; therefore, their warehouses were full of assets. These additional sales were only internal, made by Dentsply Sirona to the Dealers (sell-in), rather than external (sell-out).

These "incentives" enabled the corporation to sell more equipment to North American dealers than the market required. In China, there had also been other abnormalities. The stock had increased as a result of the company's rise in year-end closing estimates, but in the following two quarters of 2022, dealers stopped purchasing supplies, alerting the board of directors and other stakeholders to the issue.

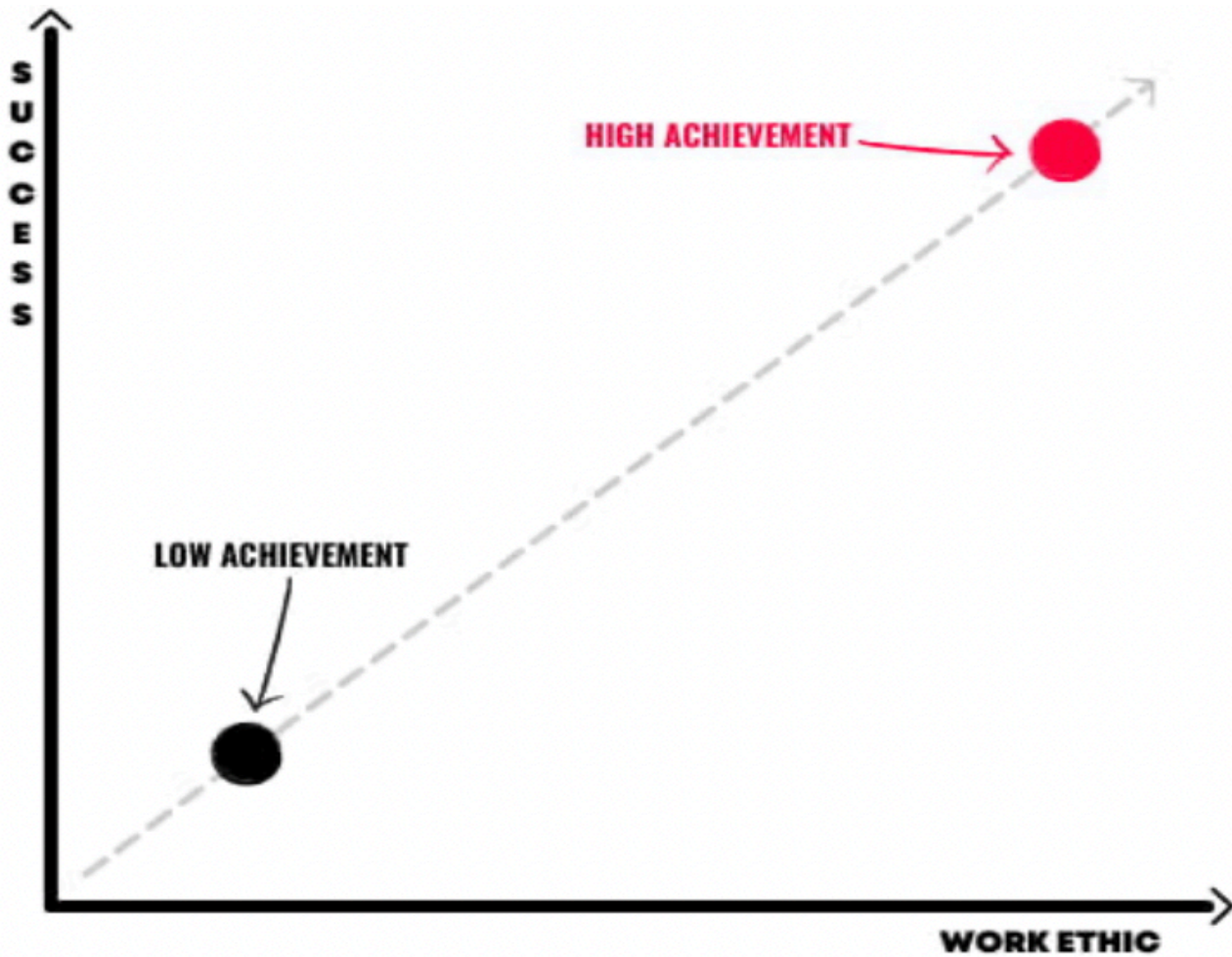
An internal inquiry was launched as a result of this incident to determine whether senior management had any involvement in the erroneous use of special sales incentives in late 2021 to raise financial results and increase executive remuneration. Don Casey, the chief executive officer, and Jorge Gomez, the chief financial officer, were sacked right away.

While concluding that there was no evidence of intentional wrongdoing or fraud, from the former CEO and former CFO specifically directed to the Company's use of incentives in order to achieve executive compensation targets in 2021," the Company stated its audit and finance committee, determined that some former senior managers, including its former CEO and CFO, violated provisions of the Company's code of ethics and business conduct, did not maintain and promote "an appropriate control environment."

The Company also needed to resubmit its financial accounts for 2021. The incident had an immediate impact on the firms' stocks, which dropped from a high of \$66.80 at the end of 2021 to a low of \$28.08 at the end of 2022.

After Dentsply Sirona disclosed the internal investigation into financial reporting, Jorge Gomez, the former Dentsply Sirona CFO, was sacked from Moderna the very next day he began his new position as CFO at the renowned COVID-19 vaccine manufacturer.

Dentsply Sirona, therefore, hired new CEO Simon Campion, CFO Glenn Coleman, and North American Sales Director Andrew Robinson as they are all respected and celebrated for having high moral standards.



“The importance of work ethics extends beyond the interests of investors and the company itself, profoundly affecting the lives and well-being of the people involved. An ethical working environment promotes employees’ sense of belonging, satisfaction, and personal fulfillment, creating a virtuous cycle in which the company’s success is intertwined with individual and collective well-being.”

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[-Dentsply Sirona Provides Corporate Update: John Groetelaars Named Interim Chief Executive Officer, Barbara Bodem Named Interim Chief Financial Officer, Company Provides Update on Anticipated First Quarter Financial Results](#)

[-Andrew Robinson to lead North America commercial business at Dentsply Sirona](#)

[-Dentsply Sirona Appoints Simon Campion as Chief Executive Officer](#)

[-Dentsply Sirona Appoints Glenn Coleman as Chief Financial Officer](#)

[-Dentsply Sirona Completes Internal Investigation | Dentsply Sirona](#)

About the investigation (external links)

[-SHAREHOLDER ALERT: Dentsply Sirona, Inc. \(XRAY\) Officers and Directors Face Shareholder Investigation for Potential Wrongdoing Following Accounting Restatement \(prnewswire.com\)](#)

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[-Dentsply Sirona's internal financial investigation drags on \(fiercebiotech.com\)](#)

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