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Another dental megamerger leaves Straumann on the shelf



[Elizabeth Cairns](#)

A year and a day after the last billion-dollar dental deal – Danaher’s \$2.2bn purchase of Nobel Biocare – Dentsply International is to buy Sirona Dental Systems. The \$5.6bn all-stock deal will create the largest dental products manufacturer in the world, with total annual sales of around \$4bn.

As well as knocking Danaher into second place within the dental market, the transaction leaves Straumann high and dry as the only pure-play dental company. Straumann’s management will now have to decide whether to build scale by acquiring, or whether to hope for a takeout of its own. A retaliatory bid by Danaher seems unlikely, certainly in the short term, and it is hard to see who else might be interested.

My Sirona

Consolidation in the dental arena permits manufacturers to follow a high-volume, low-cost sales play for their products, many of which are undifferentiated. But this particular transaction also has a technological rationale, as it permits the implant manufacturer Dentsply to bring in Sirona’s expertise in computer-aided design and manufacture to create bespoke prostheses much more rapidly than conventional techniques.

EP Vantage suggested back in November that Sirona might be a tempting apple to pluck ([The next medtech megamerger?](#), November 5, 2014).

Under the deal, Sirona investors will get 1.8142 shares of Dentsply for each share they own, valuing Sirona at around \$98.60 per share based on Dentsply’s price at close yesterday. This offers barely any premium over where Sirona closed yesterday, and is well below where the stock was trading just a month ago.

Sirona’s share price is currently hovering at around \$95.32, down 4% so far today, in tandem with Dentsply’s stock, which is off 2%.

Unusually for an all-share deal, the target’s stock has markedly outperformed the buyer’s, with Sirona’s share price rising twice as fast as Dentsply’s over the past five years. Perhaps the smaller group’s shareholders believe that the stock has gone as high as it can on a standalone basis.

At close, Dentsply shareholders will own 58% of the new company and Sirona investors 42%. The merger is expected to result in pre-tax savings of more than \$125m by year three.

Teeth wisdom

With Dentsply-Sirona, as the new group will be called, set to occupy around 28% of the market versus Danaher’s 20%, the company with the third-largest dental sales will be 3M, a huge conglomerate with a \$90bn market cap. Might 3M opt to buy Straumann?

Probably not. Medtech makes up only around 17% of 3M’s revenues, and dental just 4%. Its products are largely instruments and cements, and Straumann’s implant technologies seem like an odd fit.

Perhaps the opposite might occur, with Straumann striving to remain independent by buying 3M’s dental operations. Arguably this move makes more sense, as 3M has little to gain from a scale play whereas Straumann could grow its presence significantly.

Alternatively one of the other implant companies, such as Zimmer Biomet, might make a move.

The other possibility is a merger of near-equals: Straumann and the slightly larger Align Technology. Maker of the Invisalign tooth straightening devices, Align also produces the iTero intraoral scanner that is compatible with many laboratory-based computer-aided design and manufacture systems. Straumann has a small computer-aided design and manufacturing business, which made up around 7% of its revenues last year.

Of course, Straumann may not be bought at all. According to Bernstein analysts, the dental consolidation trend likely increases the chances that Straumann will be taken out one day, but the company is unlikely to be open

to a potential deal at present, they write.

It has a large insider shareholder base – about 38% of shares – who could block a sale. Bernstein analysts say the company’s performance has been strong recently, so there is little pressure to seek an exit.

With this level of consolidation any more mergers could run afoul of competition law – the Dentsply-Sirona deal itself has yet to make it through antitrust approval. The trend might stop here. But cost pressures in a relatively genericised and consumer-led market will not abate, and there could be room for just one more.

The changing dental market					
	Global dental product sales (\$m)			Market share	
Companies	2015	2020	CAGR	2015	2020
Dentsply-Sirona	-	4,501	-	-	28.0%
Danaher	2,820	3,199	+3%	22.2%	19.9%
Dentsply International	2,393	-	-	18.9%	-
3M	1,305	1,671	+5%	10.3%	10.4%
Sirona Dental Systems	1,173	-	-	9.3%	-
Align Technology	843	1,377	+10%	6.7%	8.6%
Straumann	812	1,147	+7%	6.4%	7.1%
Rest of market	3,330	4,181	59%	26.3%	26.0%
Total market	12,677	16,076	+5%	100.0%	100.0%

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