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Dental Implants: An Industry at the Crossroads?**INDUSTRY FLASH NOTE****Investment Summary**

Premium dental implant makers Nobel Biocare and Straumann are likely to see the market stabilise and recover later this year, driven by the US. However, innovation - and hence pricing power - might decline. We have a relative preference for Nobel over Straumann.

Stephan Gasteyger, Equity Analyst

44 (0) 20 7029 8703, sgasteyger@Jefferies.com

Ingeborg Øie, Equity Analyst

44 (0) 20 7029 8704, ioie@Jefferies.com

Event

We attended an analyst conference call hosted by Dr. Gerald Niznick, founder and President of privately-held dental implant maker ImplantDirect.

Key Points

- **Will pricing pressure increase as innovation declines?** As the founder of low-cost dental implant maker ImplantDirect, Dr. Niznick has, over the last years, aggressively taken on premium dental implant makers Nobel and Straumann by offering similar implants at a substantial discount. According to Dr. Niznick, Nobel is the main player his company has been taking market share from, but he plans to increasingly target Straumann products too. Blaming the lack of real innovation, Dr. Niznick sees pricing pressure increasing on premium dental implant makers, as he considers Straumann's and Nobel's new products as marketing gimmicks rather than real, value-added innovation. While Dr. Niznick sees great growth potential in the dental implant market going forward, he believes the two market leaders should adapt their strategies to position themselves on a larger scale (e.g. by offering lower cost implants too).
- **Golden years are over, but market expectations reflect that:** We agree that the golden years of consistent mid-teens top-line growth driven by volume and mix improvements may well be over for premium dental implant makers. On the other hand, the fact that the cost component an implant represents as share of the total procedure cost (c. 10-15%) combined with the conservative behaviour of numerous dentists is likely to continue to protect the market share of premium providers. Low-cost players have, so far, failed to gain real critical mass, with most of them having sales of \$50m or less. Finally, we see current valuation levels already reflecting a more muted growth outlook (especially for Nobel), i.e. compounded high single-digit top-line growth over the next years, with EBIT margins in the high-twenties rather than low-to mid-thirties, reflecting a higher share of sales in the lower margin non-implant space as well as a more difficult pricing environment.
- **Relative preference for Nobel:** Between the two players, we continue to prefer Nobel on valuation grounds (Straumann trades at a 30% 2011 P/E premium to Nobel on our estimates, and 15% based on consensus numbers). In addition, we believe that a volume recovery is more likely to start in the US, to which Nobel is more exposed (c. 33% of sales vs. c. 20% for Straumann). We retain our Buy rating on Nobel Biocare (NOBN VX, TP CHF 33) and Underperform rating (TP CHF 230) on Straumann (STMN SW).

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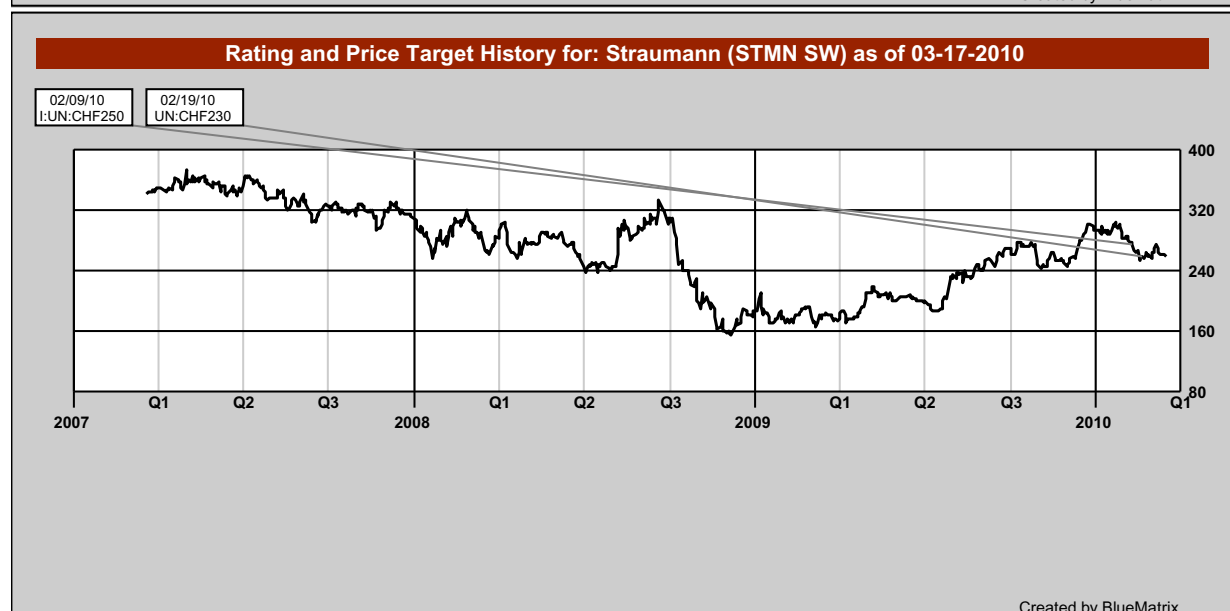
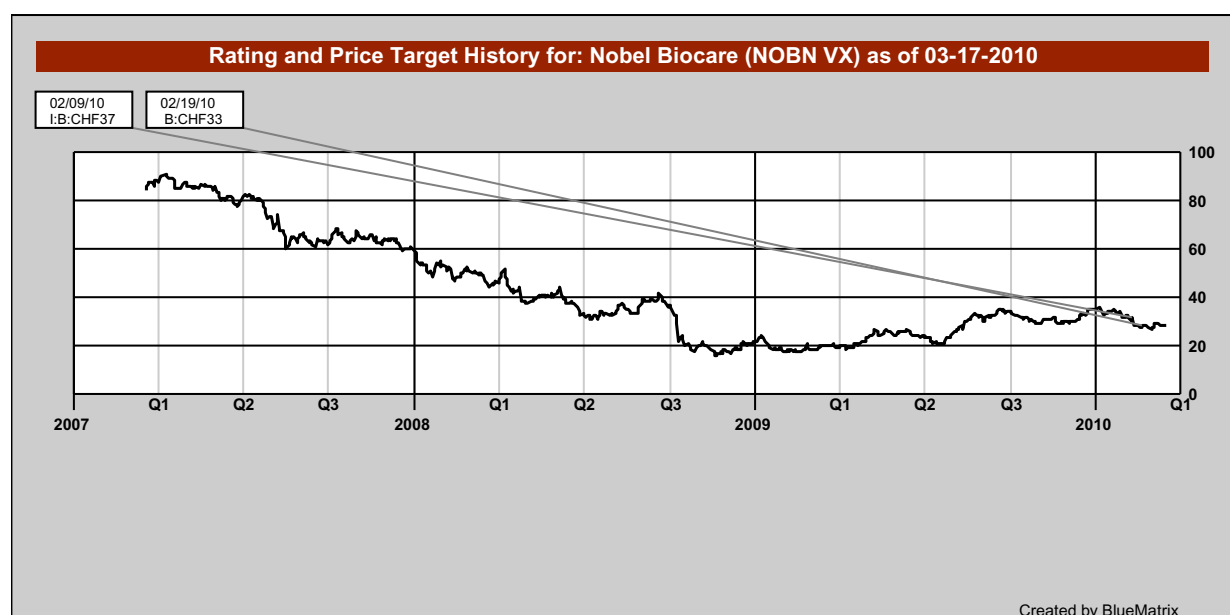
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|-----------------|-------|---------|-----------------------|---------|
| | | | Count | Percent |
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