Letter to shareholders

Marco Gadola (Chief Executive Officer) and Gilbert Achermann (Chairman of the Board)

DEAR SHAREHOLDER,

2016 was another very good year for the Straumann Group as we achieved our strongest performance in eight years in terms of revenue growth, operating profit margin and market share gains. We strengthened our leading position in the premium segment and we moved up to rank among the world's top three implant companies in the non-premium segment. We entered new markets and segments, launched new products and solutions and created new jobs bringing our global team to approximately 3800 employees.

Most importantly we helped to create smiles for innumerable patients around the world, restoring their confidence, improving their quality of life and creating new opportunities for them. Based on the volumes of products sold, every 10 seconds someone somewhere in the world was treated with a Straumann Group product in 2016.

As this report illustrates, we also created opportunities for other stakeholders – from customers and employees to partners, communities and investors, not forgetting the opportunities we created for our own business.

BUSINESS AND FINANCIAL PERFORMANCE

GROWTH IN ALL DIRECTIONS

All of these activities translated into organic revenue growth of 13%. Including acquisitions and a slightly positive currency effect, Group revenue rose 15% in Swiss francs to CHF 918 million. This is remarkable in the context of the global market for tooth replacement, which has grown at 3–4% in the past two years. With our organic growth accelerating from 9% in 2015 to 13% in 2016, we have left our competitors behind.

By region, North America (+16%[1]) was our largest growth contributor and Asia / Pacific our fastest (+20%[1]). We sold more implants in Latin America (+15%[1]) than anywhere else and we continued to grow solidly in Europe, Middle East and Africa (+9%[1]), which is our largest region by value.

Almost two thirds of our growth was generated by the implants business, where the main contributor was our Bone Level Tapered (BLT) range. Since its launch at the end of 2014, BLT has gained an estimated 4% share of the large conical implant segment and now accounts for a quarter of the Straumann implants we sell. At the same time, our attractively priced range of non-premium implants also grew strongly, capturing business from competitor brands and making the second largest contribution to our growth.

The other key drivers were our high-strength implant material Roxolid (see p. 33) and our SLActive implant surface technology, which reduces healing times (see p. 33). The main advantage of these features and BLT is that they significantly shorten tooth replacement time. They are now available in all major markets except China, where regulatory approvals are still pending.

2016 marked the 30th anniversary of our Tissue Level SLA implant, which has been described as 'our best employee' because it has worked more hours, achieved more sales and served more customers than any other. It commands great respect, is one of the best documented implants on the market and still catches the limelight in top scientific publications[2,3,4].

For the first time in several years, our restorative business returned to double-digit growth, reflecting our intense efforts over the past two years to become the partner of choice for dental labs. Sales of prosthetics – both standard and CADCAM customized – developed very positively. Our simple, cost-effective Variobase abutments, which can be restored in milling centers, labs and even dental practices, contributed to this, while our new intraoral scanner and in-lab milling solutions added to growth in digital solutions.

Variobase, BLT and Pro Arch are all young product ranges, which collectively contributed more than two thirds of our growth.

Our smallest business, biomaterials, was the fastest growing. Thanks to our successful collaborations with botiss and other partners, we are able to offer regenerative solutions in most markets and are well positioned in each category, with a full range of bone graft and soft tissue regeneration materials. One highlight in 2016 was the launch of Emdogain to enhance oral wound-healing, reducing pain, swelling, and risk of complications while improving esthetic outcomes and patient satisfaction.

PROFITABILITY TARGETS EXCEEDED

Another notable achievement is that our growth did not come at the expense of profitability. We continued to invest in research to create new and better treatments (see p. 45 ff.). We developed new designs, processes, and procedures to improve existing solutions and to make implant dentistry more accessible, affordable, comfortable, convenient and reliable. We also invested in new training and education concepts to increase the provider base and ensure the successful use of our products. And we invested in new jobs, personal development and cultural change to sustain our success in the future.

Despite these and significant investments in new markets and segments we still delivered our target for margin expansion. Our underlying operating and net profit rose 22% and 29%, respectively, with the corresponding margins reaching 25% and 20%. Underlying basic earnings per share climbed from CHF 9.19 to CHF 11.94.

SOLIDLY FINANCED TO INVEST IN FURTHER GROWTH OPPORTUNITIES

We also invested in new partnerships, strategic acquisitions and production expansion. Capital expenditure rose to CHF 46 million. Free cash flow reached CHF 139 million, CHF 40 million of which was used for acquisitions. We purchased a block of our own shares for CHF 200 million, which together with the dividend pay-out of CHF 63 million were the main financing activities.

As a result, cash and cash equivalents at year-end amounted to CHF 164 million. With an equity ratio of

58% we remain solidly financed to invest in further growth opportunities.

AN EXCELLENT RETURN

Our strong performance, strategy, market potential and other fundamentals are all reflected in the share price (see p. 176) which rose 30% to close the year at CHF 397.50 – substantially outperforming the SMIM index for a fourth consecutive year.

Based on the results and positive developments in 2016, the Board proposes a dividend increase to CHF 4.25 per share, payable on 13 April 2017. Going forward, the Board's intention is to increase the dividend per share subject to further good performance.

MARKET DEVELOPMENTS AND TRENDS

We estimate that the global market for tooth replacement grew at 3–4% in 2016 and that the implant dentistry segment is worth CHF 3.5 billion. Having outperformed consistently in recent years, we reinforced our leadership position with a market share of approximately 23% (see p. 49 ff.). Our share in the restorative and regenerative dentistry segments is lower but they are closely connected with implants and we can leverage our sales force and technology network to capture cross-selling opportunities and generate attractive margins. Collectively, the markets we address are worth approximately CHF 7 billion.

The main trends seen in recent years continued in 2016, including the gender shift, the growing number of GPs placing implants, the growth of corporate dentistry and the increase in digitalization.

ADDRESSING THE NEEDS OF FEMALE DENTISTS, GENERALISTS AND CORPORATES

In previous annual reports, we have drawn attention to the fact that more women are becoming dentists than men and are less likely to own practices or become implantologists[5,6]. Early integration of implant dentistry in the dental curriculum as well as career planning, coaching and female mentoring programs are important aspects[7] that featured in our focus on female dentists in 2016 (see p. 100 ff.).

The number of general dentists placing implants continues to grow[8]. Our tissue level implant system is designed to simplify procedures and enable them to refer patients to a specialist for implant placement and then complete the restoration themselves. To gain further access to this group and to support teaching and mentoring we collaborate with leading institutes and offer education in collaboration with the ITI (see p. 103). Furthermore, our highly skilled representatives and our international young professionals program position Straumann to be the partner of choice for women and general dentists.

Another important trend has been the expansion of dental service organizations (DSOs), which range from groups of local practices to international networks of fully integrated clinics. Having gained a foothold in this segment in 2015 (see p. 74 ff.), we actively targeted DSOs in 2016 and won key accounts in Europe by offering comprehensive, tailored solutions with multiple brands and price levels all from one company.

EMBRACING DIGITALIZATION

Digitalization is changing almost everything we do. In production we implemented digital workflows and stepped closer to our goal of paperless factories (see p. 119). In treatment workflows – which are already digitalized – we added new functionality and connectivity as well as planning, scanning and milling tools (see p. 35 f.). In education we developed the Smart concept of blended learning using online modules so that dentists can study when and where they want. We also made good progress with our e-shop, achieving our frequency and turnover targets in most countries (see p. 40). And we began investing in tools and capabilities to tap into the huge opportunities offered by digital marketing and social media.

STRATEGIC GOALS AND EXECUTION

Our goal for the years to come is to be the leading global provider in tooth replacement, which means meeting medical needs, making treatment possible for more people, enhancing the standard of care and offering greater flexibility and value to customers. Our strategy to achieve this focuses on three key priorities:

- Drive a high-performance culture and organization
- Target unexploited growth markets and segments
- Become a total solution provider in tooth replacement.

These translate into clearly defined initiatives, which are assessed continuously and are reflected in the major activities featured in this report.

A CULTURE OF HIGH PERFORMANCE

Our future success depends on the ability to outperform consistently, to innovate and create opportunities, and to improve continually. Culture is the key to this. Having set and communicated the targets for our ideal culture in 2014 (see p. 104 f.), we started our Cultural Journey with a program of training modules, workshops, and other initiatives to stimulate the 'player-learner' mindset and core behaviours (see p. 19) that will drive cultural change, foster high performance and create an even better place to work. By the end of 2016, more than a third of our staff had taken part in this program and we extended our goal to include all employees by the end of 2018.

Cultural transformation takes several years but we already have clear indications of our progress. For example, in our 2016 global staff survey 88% of respondents said they actively supported our Cultural Journey and 65% observed positive changes in our culture (see p. 104 for further examples). Further evidence of this strategy in action is found in our operational performance, full innovation pipeline, and execution of strategic priorities as well as our track record in forging partnerships (see p. 24 ff.) and building talent (see pp. 107 ff., 154 ff.). This scorecard reflects the motivation, creativity, openness and dynamism that our Cultural Journey is producing.

GROWING IN UNDER-PENETRATED MARKETS AND SEGMENTS

Several new partnerships and acquisitions improved Straumann's geographical reach in 2016. One pressing goal was to enter the fast-growing non-premium segment in China. Facing lengthy regulatory procedures with our own brands, we invested in the French implant company Anthogyr, which provided us with a registered system, an established business and a dedicated sales team.

The acquisition of Equinox fulfilled our long-held ambition of entering the fast-growing implant market in India, where each year only two implants are placed per 10 000 population. Equinox is the country's third-ranking implant company and offers a launch platform for the Straumann brand. On the other side of the world, we opened subsidiaries in Argentina and Chile serving both the premium and non-premium segments. Closer to home, we entered the non-premium segment in Turkey in a joint venture with our former distributor. We also reorganized in Europe to free up resources for expansion in Russia, Eastern Europe and the Middle East, and to establish completely new markets e.g. in Africa.

A LEADING POSITION IN THE FAST-GROWING NON-PREMIUM SEGMENT

We are determined to extend our lead in the premium segment by offering innovative products and services backed by research, education and a global service structure, and by entering or building new markets. At the same time, the non-premium segment is growing faster and accounts for more than a third of the global market (see p. 49 ff.). To maintain overall leadership we need to be strong in all sectors, offering complete product solutions at a wide range of prices.

In just a few years, we have become a top-tier player in the non-premium segment by building a portfolio of value brands and driving their international expansion. Instradent, the platform we use for this, generated triple-digit growth in 2016. With an established footprint in North America, Iberia and Italy, Instradent added subsidiaries in the Czech Republic and the UK as well as a European hub to accelerate entry into new markets and to provide customer services, commercial management functions, warehousing and distribution facilities.

Our intention to obtain a controlling stake in the Korean implant company MegaGen by exercising our convertible bond and share purchase option was hampered when MegaGen initiated arbitration. The delay and diminished spirit of collaboration turned our attention to partners like Anthogyr and Zinedent. Another attractive partner is Medentika, in which we now have a controlling interest. In 2016, we took over their distribution business in Germany and thus entered the value segment in that key market.

A TOTAL SOLUTION PROVIDER

To compete against conglomerates in a consolidating and fast-changing industry, our strategy is to become a total solution provider for tooth replacement, including conventional and digital solutions for all major indications. This strategy is not unique and the keys to our success are in agility and speed of execution.

Our core implant business, which offers a comprehensive range of implant designs with multiple material, surface and price options is complemented by a broad range of standard and CADCAM prosthetics, a comprehensive range of biomaterials, and plug-and-play, open-platform digital technology that supports the entire workflow (see p. 35 f.).

To complete the portfolio we have developed products and solutions in house and have brought in new technologies by investing in highly innovative companies and building partnerships. For instance, our strategic partnership with botiss and other suppliers enables us to offer a full range of biomaterials to support implant procedures. The tie between us deepened in 2016, when we agreed to take over distribution of botiss products in Germany.

We now offer not only our own family of implants, abutments and restorations, but also a broad range of attractively priced, high quality prosthetics for competitor implants – through Medentika (standard prosthetics) and our new etkon iDent CADCAM service. The strategy of partnering also opened the door to a large number of previously inaccessible dental labs when we signed an agreement allowing Zirkonzahn, an international supplier of lab solutions and prosthetics, to distribute our Variobase solutions.

We are currently launching n!ce, our unique glass ceramic material that offers considerable advantages (e.g. high-end esthetics and excellent handling properties) for labs and dentists (see p. 36). In addition to using our own sales and distribution channels, we have granted global distribution rights to Planmeca, a global leader in dental equipment, software and CADCAM solutions, to help build the brand globally.

Perhaps our most exciting progress has come in the digital arena. Through our partnership with Dental Wings we entered the intra-oral scanner business, while with Amann Girrbach we began selling CARES-compatible in-lab milling machines under the Straumann brand. The combination of our compact milling machine and intra-oral scanner enables us to offer a highly competitive chairside solution.

In 2017, we will offer validated digital solutions that cover the full tooth replacement workflow including guided-surgery, a choice of intra-oral scanners, CAD-CAM equipment and services, as well as central, in-lab and chairside milling options.

These steps, together with the innovative education concepts and services we have developed, bring us close to achieving our strategic goal of becoming a total solution provider.

STRAUMANN GROUP – UNITING GLOBAL EXCELLENCE IN DENTISTRY

Our steps to become the global provider in tooth replacement have brought a number of companies and partners into Straumann and we have become a global Group of national and international companies and brands. To provide a common identity, we have introduced ‘Straumann Group’ as our overarching brand, with a distinct visual identity and positioning. This unites and adds value for all our brands and partners, allowing them to leverage Straumann’s global reputation without compromising our premium brand (see p. 21).

A GOOD EMPLOYER AND CORPORATE CITIZEN

The breadth and depth of our success clearly demonstrate the quality and dedication of our staff, and the value of our conscious shift toward a high-performance mindset and culture. Our global team increased by 326 to approximately 3800 employees, reflecting the incorporation of new businesses and investments in growth markets, projects, production, and R&D to drive our strong development pipeline.

In recognition of the continued strong performance, the Board decided early in 2016 to fully reinstate the variable incentive schemes used in Switzerland prior to the exchange-rate shock and awarded an unreduced bonus for the prior year (see p. 158 ff.). We strongly feel that the loyalty and efforts of our employees as well as the continuous improvements they achieved fully merit these initiatives.

We also remained committed to sustainable development and value creation. This means running our operations efficiently and using natural resources effectively to avoid waste and minimize our impact on the environment (see p. 117 ff.). It also encompasses our support for charitable programs in 15 countries with the goal of making dental healthcare available to underprivileged people.

OUTLOOK

Last year, continuing consolidation in our industry (see p. 49) raised the question of whether the Straumann Group would have the critical mass to retain its leadership in the field. At that time we were confident that we would. Today, that confidence has been strengthened by the quality of our performance, strong brand, global reach and broad portfolio, not to mention our track record in creating winning partnerships.

The fact that we are nearing our strategic goal of becoming a total solution provider has led us to consider the next steps, which might involve broadening our current business scope and creating opportunities in adjacent fields (see p. 26). This will be an important focus in 2017 as we continue to seek and evaluate new opportunities for acquisitions, partnerships and scope expansion. We will increase our focus on digitalization, customer base shifts, materials and technology.

Continuing to build a high performance culture will remain our key priority. To avoid complacency coming from success, we will concentrate on maintaining a sense of urgency and will continue to challenge the things we do with an increasingly open mind. We shall also keep vigilant and agile to adapt to our fast-changing environment. Most important, we are determined to make change happen rather than simply reacting to it.

Barring unforeseeable circumstances, we expect the global implant market to grow at a similar rate in 2017 and we are confident that we can continue to outperform by achieving organic growth in the high-single-digit range. Despite further investments in strategic growth initiatives and assuming that currency exchange rates remain fairly stable, we expect our topline growth and operational leverage to lead to further improvements in our organic[9] operating profit margin.

On your behalf, we would like to thank all our employees around the world for their personal commitment, engagement and hard work in 2016. On behalf of the Board we also thank you, our shareholders, for your ongoing support and confidence in our company.

Yours sincerely,

Gilbert Achermann
Chairman of the Board of Directors

Marco Gadola
Chief Executive Officer

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