NEW RISK ALERT: (XRAY)

Dentsply Sirona Inflates Operating Income 7%, Says It's Not Material

Latest accounting changes improve dental firm's accounting margins.

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This alert compares the language used in the company's latest filing with the period before. Research suggests changes in language, particularly in the risk factor section, is a powerful indicator of future performance. Companies that change filing language, according to research, underperform those that don't by 30-50 basis points per month for the following year.

Dentsply Sirona Inflates Gross Margin by $4 Million With Accounting Change

In the second quarter, Dentsply Sirona, a dental supplies concern, shifted from LIFO to FIFO to account for inventory. Under the previous LIFO treatment, Dentsply Sirona had approximately $1 million of inventory on the balance sheet. In adjusting the inventory under FIFO accounting, Dentsply Sirona recognized a $4 million increase in its inventory value and a corresponding decrease in the current quarter's cost of products sold.

The change, according to our calculation, added 0.67% to the company's gross margin. In its latest 10-Q, Dentsply Sirona revealed that since the change isn't material it will not adjust prior financial statements to ensure they're comparable:

> *"The impact of this change is not material to the Company's financial position as of December 31, 2020, the Company's results of operations for any previously reported prior periods nor is the cumulative effect of the change material to the results of operations for the second quarter of 2021. Therefore, prior period amounts have not been retrospectively adjusted."*

Dentsply Sirona Inflates Segment Operating Income 2.48% With Accounting Gimmick

Buried in the current quarterly filing's footnotes is an accounting change that added millions of dollars to Dentsply Sirona's 6-month operating income.

> *"(a) Certain charges related to discontinuance of product lines which were previously reported in adjusted operating income for the reportable segments, $7 million for the three and six months June 30, 2020, respectively, have been reclassified to the "All other" category to conform to current year presentation and the Company's internal reporting in the Chief Operating Decision Maker package. These amounts are not material to the measure of segment results for the years presented."*

In moving the $7 million charge below the operating income line, Dentsply is inflating segment operating income 2.48%. The company habitually changes its accounting treatments to present investors with more favorable results.

In March, we published a **New Risk Alert** detailing Dentsply's creative accounting and never ending restructuring:

- Dentsply Sirona's Never Ending Restructuring to Cost $375 Million

Lastly, investors should pay especially close attention to the company's impairment tests in future filings. Dentsply is changing the date on which it tests goodwill and intangibles for impairment. As is often the case, the company will not adjust prior period financial statements.

In the latest filing, Dentsply stated:

> *"The Company does not believe this change resulted in any delay, acceleration or avoidance of impairment. Furthermore, a retrospective application to prior periods is impracticable as the Company is unable to objectively determine, without the use of hindsight, the assumptions which would be used in earlier periods."*

For each individual accounting change, Dentsply is technically correct in stating the change is not material. Taken together though, the impact of Dentsply Sirona's accounting gimmicks do seem material. The company, according to our estimate, has inflated operating income in the quarter by $11 milion, or 7% of the company's reported GAAP operating income.