

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended July 1, 2022

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 001-39054



ENVISTA HOLDINGS CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware 83-2206728
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

200 S. Kraemer Blvd., Building E 92821-6208
Brea, California (Zip Code)
(Address of Principal Executive Offices)

Registrant's telephone number, including area code: 714-817-7000

Securities Registered Pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common stock, \$0.01 par value	NVST	New York Stock Exchange

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of common stock outstanding as of July 29, 2022, was 163,390,533.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ENVISTA HOLDINGS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(\$ in millions, except share amounts)

	As of	
	July 1, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 523.1	\$ 1,073.6
Trade accounts receivable, less allowance for credit losses of \$19.6 and \$20.7, respectively	372.8	331.9
Inventories, net	286.0	263.8
Prepaid expenses and other current assets	202.3	154.3
Assets held for sale	4.1	12.2
Total current assets	1,388.3	1,835.8
Property, plant and equipment, net	264.1	264.1
Operating lease right-of-use assets	130.5	128.1
Other long-term assets	212.4	167.8
Goodwill	3,389.7	3,132.0
Other intangible assets, net	1,076.0	1,046.4
Total assets	<u>\$ 6,461.0</u>	<u>\$ 6,574.2</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	\$ 508.6	\$ 432.4
Trade accounts payable	182.7	185.8
Accrued expenses and other liabilities	539.4	562.3
Operating lease liabilities	23.8	23.7
Liabilities held for sale	1.7	4.0
Total current liabilities	1,256.2	1,208.2
Operating lease liabilities	123.4	120.4
Other long-term liabilities	201.3	304.2
Long-term debt	864.1	883.4
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 15.0 million shares authorized; no shares issued or outstanding at July 1, 2022 and December 31, 2021	—	—
Common stock - \$0.01 par value, 500.0 million shares authorized; 163.3 million shares issued and 162.8 million shares outstanding at July 1, 2022; 162.0 million shares issued and 161.6 million outstanding at December 31, 2021	1.6	1.6
Additional paid-in capital	3,678.4	3,732.6
Retained earnings	610.3	466.9
Accumulated other comprehensive loss	(274.3)	(143.5)
Total Envista stockholders' equity	4,016.0	4,057.6
Noncontrolling interests	—	0.4
Total stockholders' equity	<u>4,016.0</u>	<u>4,058.0</u>
Total liabilities and stockholders' equity	<u>\$ 6,461.0</u>	<u>\$ 6,574.2</u>

See the accompanying Notes to the Condensed Consolidated Financial Statements.

ENVISTA HOLDINGS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(\$ and shares in millions, except per share amounts)

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Sales	\$ 645.8	\$ 637.2	\$ 1,277.2	\$ 1,249.8
Cost of sales	276.0	268.6	533.3	522.8
Gross profit	369.8	368.6	743.9	727.0
Operating expenses:				
Selling, general and administrative	279.5	259.4	537.7	496.9
Research and development	25.1	25.9	49.5	51.7
Operating profit	65.2	83.3	156.7	178.4
Nonoperating income (expense):				
Other income	0.3	0.3	0.6	0.6
Interest expense, net	(6.4)	(13.6)	(12.3)	(31.6)
Income before income taxes	59.1	70.0	145.0	147.4
Income tax expense (benefit)	14.6	(9.0)	30.1	6.6
Income from continuing operations, net of tax	44.5	79.0	114.9	140.8
Income from discontinued operations, net of tax (refer to Note 3)	2.6	11.1	7.1	21.0
Net income	<u>\$ 47.1</u>	<u>\$ 90.1</u>	<u>\$ 122.0</u>	<u>\$ 161.8</u>
Earnings per share:				
Earnings from continuing operations - basic	\$ 0.27	\$ 0.49	\$ 0.71	\$ 0.88
Earnings from continuing operations - diluted	\$ 0.25	\$ 0.44	\$ 0.64	\$ 0.79
Earnings from discontinued operations - basic	\$ 0.02	\$ 0.07	\$ 0.04	\$ 0.13
Earnings from discontinued operations - diluted	\$ 0.01	\$ 0.06	\$ 0.04	\$ 0.12
Earnings - basic	\$ 0.29	\$ 0.56	\$ 0.75	\$ 1.01
Earnings - diluted	\$ 0.26	\$ 0.51 *	\$ 0.68	\$ 0.91
Average common stock and common equivalent shares outstanding:				
Basic	162.9	161.2	162.6	160.8
Diluted	178.5	178.4	179.2	177.2

* Earnings per share is computed independently for earnings per share from continuing operations and earnings per share from discontinued operations. The sum of earnings per share from continuing operations and earnings per share from discontinued operations does not equal earnings per share due to rounding.

See the accompanying Notes to the Condensed Consolidated Financial Statements.

ENVISTA HOLDINGS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)
(\$ in millions)

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Net income	\$ 47.1	\$ 90.1	\$ 122.0	\$ 161.8
Other comprehensive (loss) income, net of income taxes:				
Foreign currency translation adjustments	(72.9)	14.4	(132.5)	(39.3)
Cash flow hedge adjustments	0.5	1.1	1.9	2.5
Pension plan adjustments	(0.1)	(0.5)	(0.2)	(0.3)
Total other comprehensive (loss) income, net of income taxes	(72.5)	15.0	(130.8)	(37.1)
Comprehensive (loss) income	\$ (25.4)	\$ 105.1	\$ (8.8)	\$ 124.7

See the accompanying Notes to the Condensed Consolidated Financial Statements.

ENVISTA HOLDINGS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)
(\$ in millions)

	Six Months Ended July 1, 2022					
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Envista Equity	Noncontrolling Interests
Balance, December 31, 2021	\$ 1.6	\$ 3,732.6	\$ 466.9	\$ (143.5)	\$ 4,057.6	\$ 0.4
Cumulative effect of adjustment related to change in accounting principle. See Notes 1 and 13	—	(77.8)	21.4	—	(56.4)	—
Balance, January 1, 2022	1.6	3,654.8	488.3	(143.5)	4,001.2	0.4
Change in noncontrolling interest	—	—	—	—	—	(0.4)
Common stock-based award activity	—	13.1	—	—	13.1	—
Net income	—	—	74.9	—	74.9	—
Other comprehensive loss	—	—	—	(58.3)	(58.3)	—
Balance, April 1, 2022	1.6	3,667.9	563.2	(201.8)	4,030.9	—
Common stock-based award activity	—	10.5	—	—	10.5	—
Net income	—	—	47.1	—	47.1	—
Other comprehensive loss	—	—	—	(72.5)	(72.5)	—
Balance, July 1, 2022	<u>\$ 1.6</u>	<u>\$ 3,678.4</u>	<u>\$ 610.3</u>	<u>\$ (274.3)</u>	<u>\$ 4,016.0</u>	<u>\$ —</u>

	Six Months Ended July 2, 2021					
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Envista Equity	Noncontrolling Interests
Balance, December 31, 2020	\$ 1.6	\$ 3,684.4	\$ 126.4	\$ (91.8)	\$ 3,720.6	\$ 0.4
Common stock-based award activity	—	6.7	—	—	6.7	—
Net income	—	—	71.7	—	71.7	—
Other comprehensive loss	—	—	—	(52.1)	(52.1)	—
Balance, April 2, 2021	1.6	3,691.1	198.1	(143.9)	3,746.9	0.4
Common stock-based award activity	—	16.5	—	—	16.5	—
Net income	—	—	90.1	—	90.1	—
Other comprehensive income	—	—	—	15.0	15.0	—
Balance, July 2, 2021	<u>\$ 1.6</u>	<u>\$ 3,707.6</u>	<u>\$ 288.2</u>	<u>\$ (128.9)</u>	<u>\$ 3,868.5</u>	<u>\$ 0.4</u>

See the accompanying Notes to the Condensed Consolidated Financial Statements.

ENVISTA HOLDINGS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(\$ in millions)

	Six Months Ended	
	July 1, 2022	July 2, 2021
Cash flows from operating activities:		
Net income	\$ 122.0	\$ 161.8
Noncash items:		
Depreciation	16.1	19.9
Amortization	50.3	42.0
Allowance for credit losses	3.6	3.6
Stock-based compensation expense	15.8	14.3
Gain on sale of property, plant and equipment	(1.1)	—
Gain on sale of KaVo treatment unit and instrument business	(8.9)	—
Restructuring charges	3.8	0.3
Impairment charges	4.9	4.1
Amortization of right-of-use assets	11.2	14.3
Amortization of debt discount and issuance costs	2.0	12.0
Change in trade accounts receivable	(56.6)	(1.5)
Change in inventories	(29.5)	(47.9)
Change in trade accounts payable	5.9	(23.5)
Change in prepaid expenses and other assets	(17.4)	(7.2)
Change in accrued expenses and other liabilities	(80.9)	(34.2)
Change in operating lease liabilities	(15.5)	(20.7)
Net cash provided by operating activities	25.7	137.3
Cash flows from investing activities:		
Acquisition, net of cash acquired	(569.8)	—
Payments for additions to property, plant and equipment	(31.9)	(28.5)
Proceeds from sale of KaVo treatment unit and instrument business, net	28.8	—
All other investing activities, net	(13.6)	5.7
Net cash used in investing activities	(586.5)	(22.8)
Cash flows from financing activities:		
Payment of debt issuance and other deferred financing costs	—	(2.3)
Proceeds from borrowings	0.3	—
Repayment of borrowings	(0.5)	(475.6)
Proceeds from stock option exercises	15.4	13.8
Tax withholding payment related to net settlement of equity awards	(8.1)	(5.3)
All other financing activities	—	6.3
Net cash provided by (used in) financing activities	7.1	(463.1)
Effect of exchange rate changes on cash and cash equivalents	3.2	13.6
Net change in cash and cash equivalents	(550.5)	(335.0)
Beginning balance of cash and cash equivalents	1,073.6	888.9
Ending balance of cash and cash equivalents	\$ 523.1	\$ 553.9
Supplemental data:		
Cash paid for interest	\$ 13.8	\$ 22.1

Cash paid for taxes	\$	52.6	\$	51.1
ROU assets obtained in exchange for operating lease obligations	\$	18.3	\$	10.8

See the accompanying Notes to the Condensed Consolidated Financial Statements.

ENVISTA HOLDINGS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1. BUSINESS AND BASIS OF PRESENTATION

Business Overview

The Company provides products that are used to diagnose, treat and prevent disease and ailments of the teeth, gums and supporting bone, as well as to improve the aesthetics of the human smile. The Company is a worldwide provider of a broad range of dental implants, orthodontic appliances, general dental consumables, equipment and services and is dedicated to driving technological innovations that help dental professionals improve clinical outcomes and enhance productivity.

The Company operates in two business segments: Specialty Products & Technologies and Equipment & Consumables. The Company's Specialty Products & Technologies segment develops, manufactures and markets dental implant systems, dental prosthetics and associated treatment software and technologies, as well as orthodontic bracket systems, aligners and lab products. The Company's Equipment & Consumables segment develops, manufactures and markets dental equipment and supplies used in dental offices, including digital imaging systems, software and other visualization/magnification systems; endodontic systems and related consumables; and restorative materials and instruments, rotary burs, impression materials, bonding agents and cements and infection prevention products.

Basis of Presentation

All revenues and costs as well as assets and liabilities directly associated with the business activity of the Company are included in the financial statements. All significant intercompany accounts and transactions between the businesses comprising the Company have been eliminated in the accompanying Condensed Consolidated Financial Statements.

The Condensed Consolidated Financial Statements included herein have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to such rules and regulations; however, the Company believes that the disclosures are adequate to make the information presented not misleading. The accompanying Condensed Consolidated Financial Statements contain all adjustments (consisting of only normal recurring adjustments and reclassifications to conform to current year presentation) necessary to present fairly the financial position of the Company as of July 1, 2022 and December 31, 2021, and its results of operations for the three and six month periods ended July 1, 2022 and July 2, 2021 and cash flows for the six month periods ended July 1, 2022 and July 2, 2021. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Company's Consolidated and Combined Financial Statements and accompanying notes for the three years ended December 31, 2021, included in the Annual Report on Form 10-K filed by the Company with the SEC on February 24, 2022.

As discussed in Note 3, Discontinued Operations, on December 31, 2021, the Company completed the sale of its KaVo dental treatment unit and instrument business (the "KaVo Treatment Unit and Instrument Business"), which was part of the Company's Equipment and Consumables segment. The previously reported amounts for the KaVo Treatment Unit and Instrument Business have been reclassified to discontinued operations for all periods presented. All segment information and descriptions exclude the KaVo Treatment Unit and Instrument Business.

Risks and Uncertainties

The Company is subject to risks and uncertainties as a result of the novel coronavirus ("COVID-19") pandemic.

During the three and six months ended July 1, 2022, notwithstanding improvement in many markets in which the Company operates due to a return to more normalized business operations, certain markets continue to be adversely impacted either directly attributable to COVID-19 or as a result of prior COVID-19 influenced policies. Late in the first quarter of 2022, the Chinese authorities instituted COVID-19-related lockdowns, shut-downs and restrictions in certain parts of China, specifically the Shanghai area, which impacted the Company's operations in China. These restrictions were lifted in early June 2022, but the extent to which continuing effects from these restrictions and any future restrictions may impact our operations remains uncertain.

The severity of the impact of the COVID-19 pandemic on the Company's business will depend on a number of factors, including, but not limited to, the scope and duration of the pandemic, the rise of new variants, the extent and severity of the impact on the Company's customers, the measures that have been and may be taken to contain the virus (including its various mutations) and mitigate its impact, U.S. and foreign government actions to respond to the reduction in global economic activity, the ability of the Company to continue to manufacture and source its products and to find suitable alternative products at reasonable prices, the Company's ability to continue to ship and deliver its products in a cost-effective and timely manner, uncertain demand, staffing shortages, the impact of the pandemic and associated economic downturn on the Company's ability to access capital if and when needed and how quickly and to what extent normal economic and operating conditions can resume, all of which are uncertain and cannot be predicted. Even after the COVID-19 pandemic has subsided, the Company may continue to experience materially adverse impacts on the Company's financial condition and results of operations.

In addition, Russia's invasion of Ukraine and the global response to this invasion, including sanctions imposed by the U.S. and other countries, could have an adverse impact on the Company's business, including impacting the Company's ability to market and sell products in the affected regions, impacting its ability to enforce its intellectual property rights in Russia, creating disruptions in the global supply chain, and by potentially having an adverse impact on the global economy, financial markets, energy markets, currency rates and otherwise.

Accounting Standards Recently Adopted

In October 2021, the FASB issued ASU No. 2021-08, *Business Combinations: Accounting for Contract Assets and Contract Liabilities from Contracts with Customers (Topic 805)*, which requires contract assets and contract liabilities acquired in a business combination to be recognized and measured by the acquirer on the acquisition date in accordance with ASC 606, Revenue from Contracts with Customers, as if it had originated the contracts, rather than at fair value. This standard is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, and early adoption is permitted. The Company adopted this guidance on January 1, 2022, which did not have a significant impact on the Company's Condensed Consolidated Financial Statements.

In August 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-06, "*Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815 – 40)*," ("ASU 2020-06"), which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. This guidance is part of the FASB's simplification initiative, which aims to reduce unnecessary complexity in U.S. GAAP. The ASU was effective for public entities for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. Effective January 1, 2022, the Company adopted ASU 2020-06 using the modified retrospective adoption approach. The cumulative effect of the change was recognized as an adjustment to the opening balance of retained earnings at the date of adoption. The comparative prior year information has not been restated and continues to be presented according to accounting standards in effect for those periods.

The adoption of ASU 2020-06 resulted in a \$75.0 million increase to the carrying value of the convertible notes due 2025, net of deferred debt issuance costs and unamortized discount and a decrease to additional paid-in capital of \$77.8 million. Additionally, the adoption resulted in a \$21.4 million increase to retained earnings and a \$18.6 million decrease to the related net deferred tax liability associated with the reduction of unamortized debt discount and deferred debt issuance costs. Refer to Note 13 for a further discussion of the impact of adopting ASU 2020-06.

Accounting Standards Not Yet Adopted

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions that reference London Interbank Offered Rate (“LIBOR”) or another reference rate expected to be discontinued because of reference rate reform, if certain criteria are met. The ASU is effective for public entities as of March 12, 2020 through December 31, 2022. An entity may elect to apply the amendments to eligible hedging relationships existing as of the beginning of the interim period that includes March 12, 2020 and to new eligible hedging relationships entered into after the beginning of the interim period that includes March 12, 2020. If an entity elects to apply any of the amendments for an eligible hedging relationship existing as of the beginning of the interim period that includes March 12, 2020, any adjustments as a result of those elections must be reflected as of the beginning of that interim period and recognized in accordance with the guidance in Reference Rate Reform Subtopics 848-30, 848-40, and 848-50 (as applicable). If an entity elects to apply any of the amendments for a new hedging relationship entered into as of the beginning of the interim period that includes March 12, 2020, any adjustments as a result of those elections must be reflected as of the beginning of the hedging relationship and recognized in accordance with the guidance in Reference Rate Reform Subtopics 848-30, 848-40, and 848-50 (as applicable).

The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. The Company has not yet completed its assessment of the impact of the new standard on the Company’s Condensed Consolidated Financial Statements.

NOTE 2. ACQUISITION

On April 20, 2022, the Company completed its acquisition of Carestream Dental Technology Parent Limited’s (“Carestream”) intraoral scanner business (the “Intraoral Scanner Business”) for total consideration of \$580.0 million, including contingent consideration of \$7.5 million, and subject to certain customary adjustments as provided in the Stock and Asset Purchase Agreement dated December 21, 2021 and as subsequently amended by the closing agreement dated as of April 20, 2022. The Intraoral Scanner Business manufactures, markets, sells, commercializes, distributes, services, trains, supports, and maintains operations of intraoral scanners and software. The Company purchased the Intraoral Scanner Business through the acquisition of certain assets and the assumption of certain liabilities as well as the acquisition of all of the equity of certain subsidiaries of Carestream.

The Company continually evaluates potential acquisitions that either strategically fit with the Company’s existing portfolio or expand the Company’s portfolio into new and attractive business areas. The Company has completed a number of acquisitions that have been accounted for as business combinations and have resulted in the recognition of goodwill in the Company’s financial statements. Among other things, goodwill arises because the purchase prices for these businesses reflect a number of factors including the future earnings and cash flow potential of these businesses, the multiple to earnings, cash flow and other factors at which similar businesses have been purchased by other acquirers, the competitive nature of the processes by which the Company acquired the businesses, avoidance of the time and costs which would be required (and the associated risks that would be encountered) to enhance the Company’s existing product offerings to key target markets and enter into new and profitable businesses and the complementary strategic fit and resulting synergies these businesses bring to existing operations.

The Company makes an initial allocation of the purchase price at the date of acquisition based upon its understanding of the fair value of the acquired assets and assumed liabilities. The Company obtains this information during due diligence and through other sources. In the months after closing, up to 12 months, as the Company obtains additional information that existed at the acquisition date about these assets and liabilities, it is able to refine the estimates of fair value and more accurately allocate the purchase price. Only items that existed as of the acquisition date are considered for subsequent adjustment. The finalization of the acquisition accounting valuation assessment may result in a change in the valuation of the deferred tax assets and goodwill, which could have a material impact on the Company’s financial statements. The following table summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date (\$ in millions):

	April 20, 2022
Assets acquired:	
Cash	\$ 2.7
Accounts receivable	0.1
Inventories	6.2
Intangible assets	129.8
Property, plant and equipment	0.4
Goodwill	370.1
Non-current deferred tax asset	98.5
Other long-term assets	1.1
Total assets acquired	608.9
Liabilities assumed:	
Accounts payable	(0.5)
Accrued expenses and other liabilities	(27.9)
Other long-term liabilities	(0.5)
Total liabilities assumed	(28.9)
Total net assets acquired	\$ 580.0

The intangible assets acquired consist of developed technology and distributor relationships. The weighted average amortization period of the acquired intangible assets in the aggregate is 8 years.

The excess of the purchase price over the fair value assigned to the assets acquired and liabilities assumed represents the goodwill resulting from the acquisition. Goodwill attributable to the acquisition has been recorded as a non-current asset and is not amortized, but is subject to review at least on an annual basis for impairment. Goodwill recognized was primarily attributable to expected operating efficiencies and expansion opportunities in the business acquired. The goodwill has been allocated to the Company's Equipment & Consumables reportable segment and is not deductible for income tax purposes.

For the three and six months ended July 1, 2022, legal, accounting, and other professional service costs associated with the acquisition of the Intraoral Scanner Business were \$8.2 million and \$10.7 million, respectively and have been recorded as selling, general and administrative expense in the Condensed Consolidated Statements of Income.

For the three and six months ended July 1, 2022, the Intraoral Scanner Business' revenue and earnings were not material to the Condensed Consolidated Statements of Income and therefore, the pro forma impact of this acquisition is not presented.

NOTE 3. DISCONTINUED OPERATIONS

On December 31, 2021, the Company completed the sale of substantially all of the KaVo Treatment Unit and Instrument Business (the "Divestiture") to planmeca Verwaltungs GmbH, Germany ("Planmeca"), pursuant to the master sale and purchase agreement (the "Purchase Agreement") among the Company, Planmeca, and Planmeca Oy, as guarantor. In accordance with the terms of the Purchase Agreement, the Company received cash consideration of \$317.3 million upon closing, which remains subject to certain adjustments. In addition, the Company received an earnout payment of \$30.0 million during the first six months of 2022.

On December 30, 2021, the Company entered into an amendment to the Purchase Agreement (the "Amendment"), providing that the transfer of net assets in Russia, China and Brazil (the "Relevant Jurisdictions") will be deferred until the purchaser has formed entities for such transfer of assets in each such Relevant Jurisdiction and the applicable asset transfer agreement can be executed and consummated (each such asset transfer, a "Deferred Local Closing"). Except for the implementation of the Deferred Local Closings and related matters regarding the assets in the Relevant Jurisdictions, the provisions, terms and conditions of the Purchase Agreement were not materially amended by the Amendment. The Amendment did not alter the preliminary purchase price that Planmeca paid to the Company upon the closing of the Divestiture. The Company recognized a liability of \$4.0 million and \$10.8 million for the proceeds related to the Relevant Jurisdictions as of July 1, 2022, and December 31, 2021, respectively. The Company will recognize the applicable gain or loss at the time of each Relevant Jurisdiction's applicable closing. As of July 1, 2022, one of the Relevant Jurisdictions has closed. The remaining Relevant Jurisdictions are expected to close at various points throughout 2022.

The Company recognized a gain of \$2.7 million and \$7.3 million on the Divestiture during the three and six months ended July 1, 2022, respectively, primarily due to the recognition of certain purchase price adjustments and the closing of one of the Relevant Jurisdictions.

In conjunction with the Divestiture, the Company entered into a customary transition services agreement, which requires support transition services to Planmeca throughout the applicable transition period.

For the three and six months ended July 1, 2022, the Divestiture continued to meet the criteria to be classified as held for sale and to be presented as a discontinued operation. Accordingly, the Company reclassified the results of operations and financial position of the Divestiture to discontinued operations in its accompanying Condensed Consolidated Statements of Income and Condensed Consolidated Balance Sheets for all periods presented. The Company's Condensed Consolidated Statements of Cash Flows for all periods presented include the financial results of the KaVo Treatment Unit and Instrument Business. For the six months ended July 2, 2021, balances represent activity for the entire Divestiture, while balances for the six months ended July 1, 2022, represent activity for the remaining Relevant Jurisdictions.

The carrying amounts of the assets and liabilities of the Divestiture held for sale are as follows (\$ in millions):

	As of	
	July 1, 2022	December 31, 2021
ASSETS		
Current assets:		
Assets for relevant jurisdictions	\$ 4.1	\$ 12.2
Current assets held for sale	\$ 4.1	\$ 12.2
LIABILITIES AND EQUITY		
Current liabilities:		
Liabilities for relevant jurisdictions	\$ 1.7	\$ 4.0
Current liabilities held for sale	\$ 1.7	\$ 4.0

The operating results of the Divestiture are reflected in the Condensed Consolidated Statements of Income within income from discontinued operations, net of tax as follows (\$ in millions):

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Sales	\$ 2.0	\$ 102.9	\$ 8.9	\$ 199.5
Cost of sales	1.1	59.6	7.0	117.3
Gross profit	0.9	43.3	1.9	82.2
Operating expenses:				
Selling, general and administrative	1.0	23.7	2.1	45.1
Research and development	—	4.4	—	8.7
Operating (loss) profit	(0.1)	15.2	(0.2)	28.4
Income tax expense	—	4.1	—	7.4
(Loss) income from discontinued operations	(0.1)	11.1	(0.2)	21.0
Gain on sale of discontinued operations, net of tax	2.7	—	7.3	—
Net income from discontinued operations	\$ 2.6	\$ 11.1	\$ 7.1	\$ 21.0

Significant non-cash operating items and capital expenditures for the Divestiture are reflected in the cash flows from operations as follows (\$ in millions):

	Six Months Ended	
	July 1, 2022	July 2, 2021
Cash flows from operating activities		
Depreciation and amortization ¹	\$ —	\$ 3.3
Cash flows from investing activities:		
Capital expenditures	\$ —	\$ 2.4

¹ Depreciation and amortization were no longer recognized once the business was classified as discontinued operations as of August 27, 2021.

NOTE 4. CREDIT LOSSES

The allowance for credit losses is a valuation account deducted from accounts receivable to present the net amount expected to be collected. Accounts receivable are charged off against the allowance when management believes the uncollectibility of an accounts receivable balance is confirmed.

Management estimates the adequacy of the allowance by using relevant available information, from internal and external sources, relating to past events, current conditions and forecasts. Historical credit loss experience provides the basis for estimation of expected credit losses and is adjusted as necessary using the relevant information available. The allowance for credit losses is measured on a collective basis when similar risk characteristics exist. The Company has identified one portfolio segment based on the following risk characteristics: geographic regions, product lines, default rates and customer specific factors.

The factors used by management in its credit loss analysis are inherently subject to uncertainty. If actual results are not consistent with management's estimates and assumptions, the allowance for credit losses may be overstated or understated and a charge or credit to net income (loss) may be required.

The rollforward of the allowance for credit losses is summarized as follows (\$ in millions):

Balance at December 31, 2021	\$	20.7
Foreign currency translation		(0.9)
Provision for credit losses		3.6
Write-offs charged against the allowance		(2.3)
Recoveries		(1.5)
Balance at July 1, 2022	<u>\$</u>	<u>19.6</u>

NOTE 5. INVENTORIES

The classes of inventory are summarized as follows (\$ in millions):

	<u>July 1, 2022</u>	<u>December 31, 2021</u>
Finished goods	\$ 229.8	\$ 214.3
Work in process	26.5	22.0
Raw materials	87.3	88.3
Reserve for inventory obsolescence	(57.6)	(60.8)
Total	<u>\$ 286.0</u>	<u>\$ 263.8</u>

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

The classes of property, plant and equipment are summarized as follows (\$ in millions):

	<u>July 1, 2022</u>	<u>December 31, 2021</u>
Land and improvements	\$ 10.5	\$ 10.7
Buildings and improvements	156.5	168.7
Machinery, equipment and other assets	360.3	354.5
Construction in progress	50.1	45.6
Gross property, plant and equipment	577.4	579.5
Less: accumulated depreciation	(313.3)	(315.4)
Property, plant and equipment, net	<u>\$ 264.1</u>	<u>\$ 264.1</u>

NOTE 7. GOODWILL

The following is a rollforward of the Company's goodwill by segment (\$ in millions):

	<u>Specialty Products & Technologies</u>	<u>Equipment & Consumables</u>	<u>Total</u>
Balance at December 31, 2021	\$ 2,029.7	\$ 1,102.3	\$ 3,132.0
Acquisition	—	370.1	370.1
Foreign currency translation	(81.1)	(31.3)	(112.4)
Balance at July 1, 2022	<u>\$ 1,948.6</u>	<u>\$ 1,441.1</u>	<u>\$ 3,389.7</u>

NOTE 8. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities were as follows (\$ in millions):

	July 1, 2022		December 31, 2021	
	Current	Noncurrent	Current	Noncurrent
Compensation and benefits	\$ 139.8	\$ 17.1	\$ 188.9	\$ 17.9
Restructuring-related employee severance, benefits and other	17.8	—	21.9	—
Pension benefits	5.6	39.2	5.6	41.7
Taxes, income and other	44.2	93.7	48.1	201.4
Contract liabilities	70.8	8.9	60.1	5.1
Sales and product allowances	72.8	1.4	75.4	1.2
Loss contingencies	8.5	30.9	8.4	30.3
Derivative financial instruments	—	—	19.6	—
Other	179.9	10.1	134.3	6.6
Total	<u>\$ 539.4</u>	<u>\$ 201.3</u>	<u>\$ 562.3</u>	<u>\$ 304.2</u>

NOTE 9. HEDGING TRANSACTIONS AND DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses cross-currency swap derivative contracts to partially hedge its net investments in foreign operations against adverse movements in exchange rates between the U.S. dollar and the euro. The cross-currency swap derivative contracts are agreements to exchange fixed-rate payments in one currency for fixed-rate payments in another currency. The Company maintains cross-currency swap derivative contracts with respect to its \$650.0 million senior unsecured term loan facility. These contracts effectively convert the \$650.0 million senior unsecured term loan facility to an obligation denominated in euros and partially offsets the impact of changes in currency rates on foreign currency denominated net investments. The changes in the fair value of these instruments are recorded in accumulated other comprehensive loss in equity, in the accompanying Condensed Consolidated Balance Sheets, partially offsetting the foreign currency translation adjustment of the Company's related net investment that is also recorded in accumulated other comprehensive loss as reflected in Note 14. Any ineffective portions of net investment hedges are reclassified from accumulated other comprehensive loss into income during the period of change. The interest income or expense from these swaps is recorded in interest expense, net in the Company's Condensed Consolidated Statements of Income consistent with the classification of interest expense attributable to the underlying debt. These instruments mature in September 2024.

The Company also has foreign currency denominated long-term debt in the amount of €208.0 million. This senior unsecured term loan facility represents a partial hedge of the Company's net investment in foreign operations against adverse movements in exchange rates between the U.S. dollar and the euro. The euro senior unsecured term loan facility is designated and qualifies as a non-derivative hedging instrument. Accordingly, the foreign currency translation of the euro senior unsecured term loan facility is recorded in accumulated other comprehensive loss in equity in the accompanying Condensed Consolidated Balance Sheets, offsetting the foreign currency translation adjustment of the Company's related net investment that is also recorded in accumulated other comprehensive loss in equity (see Note 14). Any ineffective portions of net investment hedges are reclassified from accumulated other comprehensive loss into income during the period of change. The euro senior unsecured term loan facility matures in September 2024. Refer to Note 13 for a further discussion of the above loan facilities.

The Company uses interest rate swap derivative contracts to reduce its variability of cash flows related to interest payments with respect to its senior unsecured term loans. The interest rate swap contracts exchange interest payments based on variable rates for interest payments based on fixed rates. The changes in the fair value of these instruments are recorded in accumulated other comprehensive loss in equity (see Note 14). Any ineffective portions of the cash flow hedges are reclassified from accumulated other comprehensive loss into income during the period of change. The interest income or expense from these swaps is recorded in interest expense in the Company's Condensed Consolidated Statements of Income consistent with the classification of interest expense attributable to the underlying debt. The current outstanding interest rate swap matures in September 2022.

The following table summarizes the notional values as of July 1, 2022 and July 2, 2021 and pretax impact of changes in the fair values of instruments designated as net investment hedges and cash flow hedges in accumulated other comprehensive loss (“OCI”) for the three and six months ended July 1, 2022 and July 2, 2021 (\$ in millions):

	Three Months Ended July 1, 2022		Three Months Ended July 2, 2021	
	Notional Amount	Gain Recognized in OCI	Notional Amount	Gain (Loss) Recognized in OCI
Interest rate contract	\$ 250.0	\$ 0.7	\$ 450.0	\$ 1.5
Foreign currency contracts	650.0	36.2	650.0	(6.6)
Foreign currency denominated debt	216.6	13.1	246.8	(2.1)
Total	<u>\$ 1,116.6</u>	<u>\$ 50.0</u>	<u>\$ 1,346.8</u>	<u>\$ (7.2)</u>

	Six Months Ended July 1, 2022		Six Months Ended July 2, 2021	
	Notional Amount	Gain Recognized in OCI	Notional Amount	Gain Recognized in OCI
Interest rate contracts	\$ 250.0	\$ 2.5	\$ 450.0	\$ 3.3
Foreign currency contracts	650.0	54.1	650.0	19.0
Foreign currency denominated debt	216.6	19.9	246.8	14.1
Total	<u>\$ 1,116.6</u>	<u>\$ 76.5</u>	<u>\$ 1,346.8</u>	<u>\$ 36.4</u>

Gains or losses related to the foreign currency contracts and foreign currency denominated debt are classified as foreign currency translation adjustments in the schedule of changes in OCI in Note 14, as these items are attributable to the Company’s hedges of its net investment in foreign operations. Gains or losses related to the interest rate contracts are classified as cash flow hedge adjustments in the schedule of changes in OCI in Note 14. The Company did not reclassify any deferred gains or losses related to net investment and cash flow hedges from accumulated other comprehensive loss to income during the three and six months ended July 1, 2022 and July 2, 2021. In addition, the Company did not have any ineffectiveness related to net investment and cash flow hedges during the three and six months ended July 1, 2022 and July 2, 2021. The cash inflows and outflows associated with the Company’s derivative contracts designated as net investment hedges are classified in investing activities in the accompanying Condensed Consolidated Statements of Cash Flows.

The Company’s derivative instruments, as well as its non-derivative debt instruments designated and qualifying as net investment hedges, were classified in the Company’s Condensed Consolidated Balance Sheets as follows (\$ in millions):

	July 1, 2022	December 31, 2021
Derivative Assets:		
Other long-term assets	\$ 38.4	\$ —
Prepays and other current assets	\$ 0.3	\$ —
Derivative liabilities:		
Accrued expenses and other liabilities	\$ —	\$ 19.6
Nonderivative hedging instruments:		
Long-term debt	\$ 216.6	\$ 236.5

Amounts related to the Company’s derivatives expected to be reclassified from accumulated other comprehensive loss to net income during the next 12 months are not significant.

NOTE 10. FAIR VALUE MEASUREMENTS

Accounting standards define fair value based on an exit price model, establish a framework for measuring fair value where the Company's assets and liabilities are required to be carried at fair value and provide for certain disclosures related to the valuation methods used within a valuation hierarchy as established within the accounting standards. This hierarchy prioritizes the inputs into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, or other observable characteristics for the asset or liability, including interest rates, yield curves and credit risks, or inputs that are derived principally from, or corroborated by, observable market data through correlation; and Level 3 inputs are unobservable inputs based on the Company's assumptions. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

A summary of financial assets and liabilities that are measured at fair value on a recurring basis were as follows (\$ in millions):

	Quoted Prices in Active Market (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
July 1, 2022:				
Assets:				
Cross-currency swap derivative contracts	\$ —	\$ 38.4	\$ —	\$ 38.4
Interest rate swap derivative contracts	\$ —	\$ 0.3	\$ —	\$ —
Liabilities:				
Deferred compensation plans	\$ —	\$ 15.6	\$ —	\$ 15.6
Contingent consideration	\$ —	\$ —	\$ 7.5	\$ 7.5
December 31, 2021:				
Liabilities:				
Interest rate swap derivative contracts	\$ —	\$ 2.2	\$ —	\$ 2.2
Cross-currency swap derivative contracts	\$ —	\$ 17.4	\$ —	\$ 17.4
Deferred compensation plans	\$ —	\$ 16.5	\$ —	\$ 16.5

Derivative Instruments

The cross-currency swap derivative contracts are classified as Level 2 in the fair value hierarchy as they are measured using the income approach with the relevant interest rates and foreign currency current exchange rates and forward curves as inputs. The interest rate swap derivative contracts are classified as Level 2 in the fair value hierarchy as they are measured using the income approach with the relevant interest rates and forward curves as inputs. Refer to Note 9 for additional information.

Deferred Compensation Plans

Certain management employees of the Company participate in nonqualified deferred compensation programs that permit such employees to defer a portion of their compensation, on a pretax basis. All amounts deferred under this plan are unfunded, unsecured obligations and are presented as a component of the Company's compensation and benefits accrual included in accrued expenses in the accompanying Condensed Consolidated Balance Sheets (refer to Note 8). Participants may choose among alternative earnings rates for the amounts they defer, which are primarily based on investment options within the Company's 401(k) program. Changes in the deferred compensation liability under these programs are recognized based on changes in the fair value of the participants' accounts, which are based on the applicable earnings rates on investment options within the Company's 401(k) program. Amounts voluntarily deferred by employees into the Company stock fund and amounts contributed to participant accounts by the Company are deemed invested in the Company's common stock and future distributions of such contributions will be made solely in shares of Company common stock, and therefore are not reflected in the above amounts.

Contingent Consideration

Contingent consideration represents a cash hold back intended to be used for certain liabilities related to the Company's newly acquired Intraoral Scanner Business (as further discussed in Note 2). Contingent consideration was classified as Level 3 in the fair value hierarchy as the estimated fair value was measured using a probability weighted discounted cash flow model.

Fair Value of Financial Instruments

The carrying amounts and fair values of the Company's financial instruments were as follows (\$ in millions):

	July 1, 2022		December 31, 2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cross-currency swap derivative contracts	\$ 38.4	\$ 38.4	\$ —	\$ —
Interest rate swap derivative contracts	\$ 0.3	\$ 0.3	\$ —	\$ —
Liabilities:				
Contingent consideration	\$ 7.5	\$ 7.5	\$ —	\$ —
Interest rate swap derivative contracts	\$ —	\$ —	\$ 2.2	\$ 2.2
Cross-currency swap derivative contracts	\$ —	\$ —	\$ 17.4	\$ 17.4
Convertible senior notes due 2025	\$ 508.6	\$ 1,003.5	\$ 432.1	\$ 1,162.5
Long-term debt	\$ 864.1	\$ 864.1	\$ 883.4	\$ 883.4

The fair value of long-term debt approximates the carrying value as these borrowings are based on variable market rates. The fair value of the convertible senior notes due 2025 was determined based on the quoted bid price of the convertible senior notes in an over-the-counter market on July 1, 2022 and December 31, 2021. The convertible senior notes are considered as Level 2 of the fair value hierarchy. The fair values of cash and cash equivalents, which consist primarily of money market funds, time and demand deposits, trade accounts receivable, net and trade accounts payable approximate their carrying amounts due to the short-term maturities of these instruments.

NOTE 11. WARRANTY

The Company generally accrues estimated warranty costs at the time of sale. In general, manufactured products are warranted against defects in material and workmanship when properly used for their intended purpose, installed correctly and appropriately maintained. Warranty periods depend on the nature of the product and range from 90 days up to the life of the product. The amount of the accrued warranty liability is determined based on historical information such as past experience, product failure rates or number of units repaired, estimated cost of material and labor and in certain instances estimated property damage. The accrued warranty liability is reviewed on a quarterly basis and may be adjusted as additional information regarding expected warranty costs becomes known.

The following is a rollforward of the Company's accrued warranty liability (\$ in millions):

Balance at December 31, 2021	\$ 9.4
Accruals for warranties issued during the year	7.6
Settlements made	(7.5)
Effect of foreign currency translation	(0.3)
Balance at July 1, 2022	<u>\$ 9.2</u>

NOTE 12. LITIGATION AND CONTINGENCIES

The Company records accruals for loss contingencies associated with these legal matters when it is probable that a liability will be incurred, and the amount of the loss can be reasonably estimated.

The Company has determined that the liabilities associated with certain litigation matters are probable and can be reasonably estimated and has accrued \$39.4 million and \$38.7 million as of July 1, 2022 and December 31, 2021, respectively, which are included in accrued liabilities in the Condensed Consolidated Balance Sheets. The Company has accrued for these matters and will continue to monitor each related legal issue and adjust accruals as might be warranted based on new information and further developments in accordance with ASC 450-20-25. Amounts accrued for legal contingencies often result from a complex series of judgments about future events and uncertainties that rely heavily on estimates and assumptions including timing of related payments. The ability to make such estimates and judgments can be affected by various factors including, among other things, whether damages sought in the proceedings are unsubstantiated or indeterminate; legal discovery has not commenced or is not complete; proceedings are in early stages; matters present legal uncertainties; there are significant facts in dispute; procedural or jurisdictional issues; the uncertainty and unpredictability of the number of potential claims; or there are numerous parties involved. To the extent adverse verdicts have been rendered against the Company, the Company does not record an accrual until a loss is determined to be probable and can be reasonably estimated. In the Company's opinion, based on its examination of these matters, its experience to date and discussions with counsel, the ultimate outcome of legal proceedings, net of liabilities accrued in the Company's Condensed Consolidated Balance Sheets, is not expected to have a material adverse effect on the Company's financial position. However, the resolution of, or increase in accruals for, one or more of these matters in any reporting period may have a material adverse effect on the Company's results of operations and cash flows for that period.

NOTE 13. DEBT AND CREDIT FACILITIES

The components of the Company's debt were as follows (\$ in millions):

	July 1, 2022	December 31, 2021
Senior term loan facility due 2024 (\$650.0 aggregate principal amount) (the "Term Loan Facility"), net of deferred debt issuance costs of \$2.2 and \$2.7, respectively	\$ 647.8	\$ 647.3
Senior euro term loan facility due 2024 (€208.0 aggregate principal amount) (the "Euro Term Loan Facility"), net of deferred debt issuance costs of \$0.4 and \$0.5, respectively	216.3	236.1
Convertible senior notes due 2025 (\$517.5 aggregate principal amount), net of deferred debt issuance costs of \$8.9 and \$8.9, respectively, and unamortized discount of \$0.0 and \$76.5, respectively	508.6	432.1
Other	—	0.3
Total debt	1,372.7	1,315.8
Less: current portion	(508.6)	(432.4)
Long-term debt	\$ 864.1	\$ 883.4

As of July 1, 2022 unamortized debt issuance costs totaled \$11.5 million. As of December 31, 2021 unamortized debt issuance costs and discount totaled \$88.6 million. Unamortized debt issuance costs and discount have been netted against their respective aggregate principal amounts of the related debt in the table above, and are being amortized to interest expense over the term of the respective debt.

Long-Term Indebtedness

Credit Agreement

On September 20, 2019, the Company entered into a credit agreement (the "Credit Agreement") with a syndicate of banks under which Envista borrowed approximately \$1.3 billion, consisting of the three-year \$650.0 million Term Loan Facility and the three-year €600.0 million Euro Term Loan Facility (together with the Term Loan Facility, the "Term Loans"). The Credit Agreement also included the five-year, \$250.0 million revolving credit facility (the "Revolving Credit Facility" and together with the Term Loans, the "Senior Credit Facilities"). Pursuant to the Separation Agreement, all of the net proceeds of the Term Loans were paid to Danaher as partial consideration for the Dental business Danaher transferred to Envista.

On February 9, 2021, in connection with an amendment to the Credit Agreement, the Company repaid \$472.0 million of its Euro Term Loan Facility.

On June 15, 2021, the Company entered into an amended and restated credit agreement (the "Amended Credit Agreement") with a syndicate of banks including Bank of America, N.A. as administrative agent (the "Administrative Agent"). The Amended Credit Agreement amends and restates the Company's Credit Agreement, originally dated September 20, 2019 (as amended by Amendment No. 1 to Credit Agreement dated as of May 6, 2020, Amendment No. 2 to Credit Agreement dated as of May 19, 2020, and Amendment No. 3 to Credit Agreement dated as of February 9, 2021).

Under the Amended Credit Agreement: (a) the maturity date of the Company's existing Term Loans has been extended to September 20, 2024, (b) the Revolving Credit Facility has been increased from \$250.0 million to \$750.0 million, (c) the Company may request further increases to the Revolving Credit Facility in an aggregate amount not to exceed \$350.0 million, (d) the amount of cash and cash equivalents permitted to be netted in the definition of "Consolidated Funded Indebtedness" has been increased to up to the greater of (i) \$250.0 million and (ii) 50% of Consolidated EBITDA as of the most recent measurement period, and (e) the floor on Eurocurrency rate loans applicable to the Revolving Credit Facility and the Term Loan Facility has been reduced to zero, in each case subject to and in accordance with the terms and conditions of the Amended Credit Agreement. The Company paid fees aggregating approximately \$2.1 million in connection with the Amended Credit Agreement.

The Revolving Credit Facility includes an aggregate principal amount of \$750.0 million with a \$20.0 million sublimit for the issuance of standby letters of credit. The Revolving Credit Facility can be used for working capital and other general corporate purposes. As of July 1, 2022 and December 31, 2021, there were no borrowings outstanding under the Revolving Credit Facility.

Under the Senior Credit Facilities, borrowings bear interest as follows: (1) Eurocurrency Rate Loans (as defined in the Amended Credit Agreement) bear interest at a variable rate equal to the London inter-bank offered ("LIBOR") rate plus a margin of between 0.785% and 1.625%, depending on the Company's Consolidated Leverage Ratio (as defined in the Amended Credit Agreement) as of the last day of the immediately preceding fiscal quarter; and (2) Base Rate Loans (as defined in the Amended Credit Agreement) bear interest at a variable rate equal to (a) the highest of (i) the Federal funds rate (as published by the Federal Reserve Bank of New York from time to time) plus 0.50%, (ii) Bank of America's "prime rate" as publicly announced from time to time and (iii) the Eurocurrency Rate (as defined in the Amended Credit Agreement) plus 1.0%, plus (b) a margin of between 0.00% and 0.625%, depending on the Company's Consolidated Leverage Ratio as of the last day of the immediately preceding fiscal quarter. In no event will Eurocurrency Rate Loans or Base Rate Loans bear interest at a rate lower than 0.0%. In addition, the Company is required to pay a per annum facility fee of between 0.09% and 0.225% depending on the Company's Consolidated Leverage Ratio as of the last day of the immediately preceding fiscal quarter and based on the aggregate commitments under the Revolving Credit Facility, whether drawn or not.

The interest rates for borrowings under the Term Loan Facility were 2.88% and 1.25% as of July 1, 2022 and December 31, 2021, respectively. The interest rate for borrowings under the Euro Term Loan Facility was 1.08% and 0.95% as of July 1, 2022 and December 31, 2021, respectively. Interest is payable quarterly for the Term Loans. The Company has entered into interest rate swap derivative contracts for the Term Loan Facility, as further discussed in Note 9. The Amended Credit Agreement requires the Company to maintain a Consolidated Leverage Ratio of 3.75 to 1.00 or less and includes a provision that the maximum Consolidated Leverage Ratio will be increased to 4.25 to 1.00 for the four consecutive full fiscal quarters immediately following the consummation of any acquisition by the Company or any subsidiary of the Company in which the purchase price exceeds \$100.0 million. The Amended Credit Agreement also requires the Company to maintain a Consolidated Interest Coverage Ratio (as defined in the Amended Credit Agreement) of at least 3.00 to 1.00. The Amended Credit Agreement contains customary representations, warranties, conditions precedent, events of default, indemnities and affirmative and negative covenants, including covenants that, among other things, limit or restrict the Company's and/or the Company's subsidiaries ability, subject to certain exceptions and qualifications, to incur liens or indebtedness, merge, consolidate or sell or otherwise transfer assets, make dividends or distributions, enter into transactions with the Company's affiliates and use proceeds of the debt financing for other than permitted uses. The Amended Credit Agreement also contains customary events of default. Upon the occurrence and during the continuance of an event of default, the lenders may declare the outstanding advances and all other obligations under the Amended Credit Agreement immediately due and payable. The Company was in compliance with all of its debt covenants as of July 1, 2022.

Convertible Senior Notes (the “Notes”)

On May 21, 2020, the Company issued the Notes due on June 1, 2025, unless earlier repurchased, redeemed or converted. The aggregate principal amount, which includes the initial purchasers’ exercise in full of their option to purchase an additional \$67.5 million principal amount of the Notes, was \$517.5 million. The net proceeds from the issuance, after deducting purchasers’ discounts and estimated offering expenses, were \$502.6 million. The Company used part of the net proceeds to pay for the capped call transactions (“Capped Calls”) as further described below. The Notes accrue interest at a rate of 2.375% per annum, payable semi-annually in arrears on June 1 and December 1 of each year, beginning on December 1, 2020. The Notes have an initial conversion rate of 47.5862 shares of the Company’s common stock per \$1,000 principal amount of Notes, which is equivalent to an initial conversion price of approximately \$21.01 per share of the Company’s common stock and is subject to adjustment upon the occurrence of specified events. The Notes are governed by an indenture dated as of May 21, 2020 (the “Indenture”) between the Company and Wilmington Trust, National Association, as trustee. The Indenture does not contain any financial covenants or any restrictions on the payment of dividends, the incurrence of senior debt or other indebtedness or the issuance or repurchase of the Company’s securities by the Company.

Prior to the adoption of ASU 2020-06, the Company separated the carrying amounts of the Notes and total issuance costs incurred into liability and equity components. For the Notes, the carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated convertible feature, while the carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the Notes. Total issuance costs incurred were then allocated to the liability and equity components of the Notes based on their relative values.

Due to the Company’s adoption of ASU 2020-06 on January 1, 2022, as discussed in Note 1, the Notes and related issuance costs incurred are no longer required to be bifurcated into separate liability and equity components. This resulted in a \$75.0 million increase to the carrying value of the Notes due 2025, comprised of unamortized discount of \$76.5 million and deferred debt issuance costs of \$1.5 million and a decrease to additional paid-in capital of \$77.8 million. Additionally, the adoption of ASU 2020-06 resulted in a \$21.4 million increase to retained earnings and a \$18.6 million decrease to the related net deferred tax liability associated with the reduction of unamortized debt discount and deferred debt issuance costs.

As of July 1, 2022, the unamortized debt issuance costs on the Notes was \$8.9 million and is being amortized over the term of the Notes.

The Notes are the Company’s senior, unsecured obligations and are (i) equal in right of payment with the Company’s existing and future senior, unsecured indebtedness; (ii) senior in right of payment to the Company’s existing and future indebtedness that is expressly subordinated to the Notes; (iii) effectively subordinated to the Company’s existing and future secured indebtedness, to the extent of the value of the collateral securing that indebtedness; and (iv) structurally subordinated to all existing and future indebtedness and other liabilities, including trade payables, and (to the extent the Company is not a holder thereof) preferred equity, if any, of the Company’s subsidiaries.

Holders of the Notes may convert their Notes at any time on or after December 2, 2024 until the close of business on the second scheduled trading day preceding the maturity date. Holders of the Notes will also have the right to convert the Notes prior to December 2, 2024, but only upon the occurrence of specified events. In December 2021, the Company made the irrevocable election to settle all Notes conversions through combination settlement, satisfying the principal amount outstanding with cash and any Notes conversion value in excess of the principal amount in cash, shares of the Company’s common stock or a combination of both. If a fundamental change occurs prior to the maturity date, holders of the Notes may require the Company to repurchase all or a portion of their Notes for cash at a repurchase price equal to 100.0% of the principal amount plus any accrued and unpaid interest. In addition, if specific corporate events occur prior to the maturity date, the Company would increase the conversion rate for a holder who elects to convert its Notes in connection with such an event in certain circumstances. As of July 1, 2022 and December 31, 2021, the stock price exceeded 130% of the conversion price of \$21.01 in 20 days of the final 30 trading days ended July 1, 2022 and December 31, 2021, which satisfied one of the conditions permitting early conversion by holders of the Notes, therefore, the Notes are classified as short-term debt.

The Notes will be redeemable, in whole or in part, at the Company’s option at any time, and from time to time, on or after June 1, 2023 and on or before the 40th scheduled trading day immediately before the maturity date, at a cash redemption price equal to the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding the redemption date, but only if the last reported sale price per share of the Company’s common stock exceeds 130.0% of the conversion price on (i) each of at least 20 trading days, whether or not consecutive, during the 30 consecutive trading days ending on, and including, the trading day immediately before the date the Company sends the related redemption notice; and (ii) the trading day immediately before the date the Company sends such notice. In addition, calling any Note for redemption will constitute a “Make-Whole Fundamental Change” (as defined in the Indenture) with respect to that Note, in which case the conversion rate applicable to the conversion of that Note will be increased in certain circumstances if it is converted after it is called for redemption.

The following table sets forth total interest expense recognized related to the Notes (\$ in millions):

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Contractual interest expense	\$ 3.0	\$ 3.0	\$ 6.1	\$ 6.1
Amortization of debt issuance costs	0.8	0.4	1.5	0.9
Amortization of debt discount	—	4.7	—	9.3
Total interest expense	\$ 3.8	\$ 8.1	\$ 7.6	\$ 16.3

For the three and six months ended July 1, 2022, the debt discount and debt issuance costs were amortized using an annual effective interest rate of 3.0%, to interest expense over the term of the Notes.

As of July 1, 2022 and December 31, 2021, the if-converted value of the Notes exceeded the outstanding principal amount by \$446.4 million and \$592.1 million, respectively.

Capped Call Transactions

In connection with the offering of the Notes, the Company entered into Capped Calls with certain counterparties. The Capped Calls each have an initial strike price of approximately \$21.01 per share, subject to certain adjustments, which corresponds to the initial conversion price of the Notes. The Capped Calls have initial cap prices of \$23.79 per share, subject to certain adjustments. The Capped Calls cover, subject to anti-dilution adjustments, 2.9 million shares of the Company's common stock. The Capped Calls are generally intended to reduce or offset the potential dilution from shares of common stock issued upon any conversion of the Notes with such reduction or offset, as the case may be, subject to a cap based on the cap price. As the Capped Call transactions are considered indexed to the Company's own stock and are considered equity classified, they are recorded in equity and are not accounted for as derivatives. The cost of \$20.7 million incurred in connection with the Capped Calls was recorded as a reduction to additional paid-in capital.

NOTE 14. ACCUMULATED OTHER COMPREHENSIVE LOSS

The changes in accumulated other comprehensive loss by component are summarized below (\$ in millions).

	Foreign Currency Translation Adjustments	Unrealized (Loss) Gain on Cash Flow Hedges	Unrealized Pension Costs	Total Accumulated Other Comprehensive Loss
Three Months Ended July 1, 2022				
Balance, April 1, 2022	\$ (199.2)	\$ (0.3)	\$ (2.3)	\$ (201.8)
Other comprehensive (loss) income before reclassifications:				
(Decrease) increase	(60.4)	0.7	—	(59.7)
Income tax impact	(12.5)	(0.2)	—	(12.7)
Other comprehensive (loss) income before reclassifications, net of income taxes	(72.9)	0.5	—	(72.4)
Amounts reclassified from accumulated other comprehensive loss:				
Increase	—	—	—	—
Income tax impact	—	—	(0.1)	(0.1)
Amounts reclassified from accumulated other comprehensive loss, net of income taxes	—	—	(0.1)	(0.1)
Net current period other comprehensive (loss) income, net of income taxes	(72.9)	0.5	(0.1)	(72.5)
Balance, July 1, 2022	<u>\$ (272.1)</u>	<u>\$ 0.2</u>	<u>\$ (2.4)</u>	<u>\$ (274.3)</u>
Three Months Ended July 2, 2021				
Balance, April 2, 2021	\$ (116.2)	\$ (4.9)	\$ (22.8)	\$ (143.9)
Other comprehensive income before reclassifications:				
Increase	12.4	1.5	—	13.9
Income tax impact	2.0	(0.4)	—	1.6
Other comprehensive income before reclassifications, net of income taxes	14.4	1.1	—	15.5
Amounts reclassified from accumulated other comprehensive loss:				
Increase	—	—	(0.4)	(0.4)
Income tax impact	—	—	(0.1)	(0.1)
Amounts reclassified from accumulated other comprehensive loss, net of income taxes	—	—	(0.5)	(0.5)
Net current period other comprehensive income, net of income taxes	14.4	1.1	(0.5)	15.0
Balance, July 2, 2021	<u>\$ (101.8)</u>	<u>\$ (3.8)</u>	<u>\$ (23.3)</u>	<u>\$ (128.9)</u>

	Foreign Currency Translation Adjustments	Unrealized (Loss) Gain on Cash Flow Hedges	Unrealized Pension Costs	Total Accumulated Other Comprehensive Loss
Six Months Ended July 1, 2022				
Balance, December 31, 2021	\$ (139.6)	\$ (1.7)	\$ (2.2)	\$ (143.5)
Other comprehensive (loss) income before reclassifications:				
(Decrease) increase	(114.2)	2.5	—	(111.7)
Income tax impact	(18.3)	(0.6)	—	(18.9)
Other comprehensive (loss) income before reclassifications, net of income taxes	(132.5)	1.9	—	(130.6)
Amounts reclassified from accumulated other comprehensive loss:				
Increase	—	—	(0.2)	(0.2)
Income tax impact	—	—	—	—
Amounts reclassified from accumulated other comprehensive loss, net of income taxes	—	—	(0.2)	(0.2)
Net current period other comprehensive (loss) income, net of income taxes	(132.5)	1.9	(0.2)	(130.8)
Balance, July 1, 2022	<u>\$ (272.1)</u>	<u>\$ 0.2</u>	<u>\$ (2.4)</u>	<u>\$ (274.3)</u>

	Foreign Currency Translation Adjustments	Unrealized Loss on Cash Flow Hedges	Unrealized Pension Costs	Total Accumulated Other Comprehensive Loss
Six Months Ended July 2, 2021				
Balance, December 31, 2020	\$ (62.5)	\$ (6.3)	\$ (23.0)	\$ (91.8)
Other comprehensive (loss) before reclassifications:				
(Decrease) increase	(31.0)	3.3	—	(27.7)
Income tax impact	(8.3)	(0.8)	—	(9.1)
Other comprehensive (loss) income before reclassifications, net of income taxes	(39.3)	2.5	—	(36.8)
Amounts reclassified from accumulated other comprehensive loss:				
Increase	—	—	(0.2)	(0.2)
Income tax impact	—	—	(0.1)	(0.1)
Amounts reclassified from accumulated other comprehensive loss, net of income taxes	—	—	(0.3)	(0.3)
Net current period other comprehensive (loss) income, net of income taxes	(39.3)	2.5	(0.3)	(37.1)
Balance, July 2, 2021	<u>\$ (101.8)</u>	<u>\$ (3.8)</u>	<u>\$ (23.3)</u>	<u>\$ (128.9)</u>

NOTE 15. REVENUE

The following table presents the Company's revenues disaggregated by geographical region for the three and six months ended July 1, 2022 and July 2, 2021 (\$ in millions). Sales taxes and other usage-based taxes collected from customers are excluded from revenues. The Company has historically defined emerging markets as developing markets of the world, which prior to the COVID-19 pandemic, experienced extended periods of accelerated growth in gross domestic product and infrastructure, including Eastern Europe, the Middle East, Africa, Latin America and Asia (with the exception of Japan and Australia). The Company defines developed markets as all markets of the world that are not emerging markets.

	Three Months Ended July 1, 2022			Three Months Ended July 2, 2021		
	Specialty Products & Technologies	Equipment & Consumables	Total	Specialty Products & Technologies	Equipment & Consumables	Total
Geographical region:						
North America	\$ 179.5	\$ 160.3	\$ 339.8	\$ 172.3	\$ 165.1	\$ 337.4
Western Europe	100.5	29.4	129.9	96.5	31.5	128.0
Other developed markets	23.0	10.3	33.3	25.3	11.5	36.8
Emerging markets	104.7	38.1	142.8	92.1	42.9	135.0
Total	<u>\$ 407.7</u>	<u>\$ 238.1</u>	<u>\$ 645.8</u>	<u>\$ 386.2</u>	<u>\$ 251.0</u>	<u>\$ 637.2</u>

	Six Months Ended July 1, 2022			Six Months Ended July 2, 2021		
	Specialty Products & Technologies	Equipment & Consumables	Total	Specialty Products & Technologies	Equipment & Consumables	Total
Geographical region:						
North America	\$ 358.8	\$ 316.6	\$ 675.4	\$ 335.1	\$ 329.6	\$ 664.7
Western Europe	206.8	61.4	268.2	191.2	62.5	253.7
Other developed markets	47.4	20.6	68.0	50.8	21.8	72.6
Emerging markets	191.8	73.8	265.6	175.6	83.2	258.8
Total	<u>\$ 804.8</u>	<u>\$ 472.4</u>	<u>\$ 1,277.2</u>	<u>\$ 752.7</u>	<u>\$ 497.1</u>	<u>\$ 1,249.8</u>

Sales by Major Product Group:

(\$ in millions)	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Consumables	\$ 544.8	\$ 531.6	\$ 1,074.7	\$ 1,045.6
Equipment	101.0	105.6	202.5	204.2
Total	<u>\$ 645.8</u>	<u>\$ 637.2</u>	<u>\$ 1,277.2</u>	<u>\$ 1,249.8</u>

Consumable products include implants, prosthetics, orthodontic brackets, aligners and lab products from our Specialty Products & Technologies business segment and traditional consumables such as bonding agents and cements, impression materials, infection prevention products and restorative products from the Company's Equipment & Consumables business segment. The Company's equipment products include digital imaging systems, software and other visualization and magnification systems.

Remaining Performance Obligations

Remaining performance obligations include noncancelable purchase orders, extended warranty and service agreements and do not include revenue from contracts with customers with an original term of one year or less.

As of July 1, 2022, the aggregate amount of the transaction price allocated to remaining performance obligations was \$46.3 million and the Company expects to recognize revenue on the majority of this amount over the next 12 months.

Contract Liabilities

The Company often receives cash payments from customers in advance of the Company's performance resulting in contract liabilities. These contract liabilities are classified as either current or long-term in the Condensed Consolidated Balance Sheets based on the timing of when the Company expects to recognize revenue. As of July 1, 2022 and December 31, 2021, the contract liabilities were \$79.7 million and \$65.2 million, respectively, and are included within accrued expenses and other liabilities and other long-term liabilities in the accompanying Condensed Consolidated Balance Sheets. Revenue recognized during the six months ended July 1, 2022 and July 2, 2021 that was included in the contract liability balance at December 31, 2021 and December 31, 2020 was \$36.1 million and \$28.1 million, respectively.

Significant Customers

Sales to the Company's largest customer were 12% and 11% of sales for the three and six months ended July 1, 2022, respectively. Sales to the Company's largest customer were 13% and 12% of sales for the three and six months ended July 2, 2021, respectively.

Seasonality

Based on historical experience, the Company generally has more sales in the second half of the calendar year than in the first half of the calendar year, with the first quarter typically having the lowest sales of the year. Based on historical customer buying patterns, the Company generally has more sales in the fourth quarter than in any other quarter of the year, driven in particular by capital spending in the Equipment & Consumables segment. As a result of this seasonality in sales, profitability in the Equipment & Consumables segment also tends to be higher in the second half of the year. There are no assurances that these historical trends will continue in the future and the ongoing COVID-19 pandemic may impact these trends.

NOTE 16. RESTRUCTURING ACTIVITIES AND RELATED IMPAIRMENTS

Restructuring Activities

The Company's restructuring activities are undertaken as necessary to implement management's strategy, streamline operations, take advantage of available capacity and resources, and ultimately achieve net cost reductions. These activities generally relate to the realignment of existing manufacturing capacity and closure of facilities and other exit or disposal activities, as it relates to executing the Company's strategy, either in the normal course of business or pursuant to significant restructuring programs.

The related liability which is included in accrued liabilities in the Condensed Consolidated Balance Sheets is summarized below (\$ in millions):

	Employee Severance and Related	Facility Exit and Related	Total
Balance, December 31, 2021	\$ 21.4	\$ 0.5	\$ 21.9
Costs incurred	6.8	3.0	9.8
Paid/settled	(10.7)	(3.2)	(13.9)
Balance, July 1, 2022	<u>\$ 17.5</u>	<u>\$ 0.3</u>	<u>\$ 17.8</u>

Restructuring related charges recorded for the three and six months ended July 1, 2022 and July 2, 2021, by segment were as follows (\$ in millions):

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Specialty Products & Technologies	\$ 4.2	\$ 3.6	\$ 8.2	\$ 7.0
Equipment & Consumables	9.3	2.5	8.4	4.4
Other	1.3	1.3	1.9	3.8
Total	<u>\$ 14.8</u>	<u>\$ 7.4</u>	<u>\$ 18.5</u>	<u>\$ 15.2</u>

The restructuring related charges incurred during the three and six months ended July 1, 2022 and July 2, 2021, are reflected in the following captions in the accompanying Condensed Consolidated Statements of Income (\$ in millions):

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Cost of sales	\$ 6.9	\$ 3.1	\$ 6.6	\$ 6.0
Selling, general and administrative expenses	7.9	4.3	11.9	9.2
Total	\$ 14.8	\$ 7.4	\$ 18.5	\$ 15.2

NOTE 17. INCOME TAXES

The Company's effective tax rates from continuing operations of 24.7% and 20.8% for the three and six months ended July 1, 2022, respectively, differ from the U.S. federal statutory rate of 21.0%, primarily due to the Company's geographical mix of earnings and discrete tax items. The Company's effective tax rates from continuing operations of (12.9)% and 4.5% for the three and six months ended July 2, 2021, respectively, differ from the U.S. federal statutory rate of 21.0%, primarily due to the Company's geographical mix of earnings and certain non-recurring Swiss discrete tax benefits.

NOTE 18. EARNINGS PER SHARE

Earnings per share is calculated by dividing the applicable income by the weighted average number of shares of common stock outstanding for the applicable period. Diluted earnings per share is computed based on the weighted average number of common shares outstanding plus the effect of dilutive potential shares outstanding during the period using the treasury stock method. Dilutive potential common shares include employee equity options, non-vested shares and similar instruments granted by the Company and the assumed conversion impact of the Notes. The Company will settle any Notes conversions through a combination settlement by satisfying the principal amount outstanding with cash and any Notes conversion value in excess of the principal amount in cash or shares in the Company's common stock or any combination thereof. As such, the Company uses the treasury stock method for the assumed conversion of the Notes to compute the weighted average shares of common stock outstanding for diluted earnings per share. As the Company will settle the principal amount of the Notes in cash upon conversion, the Notes do not have an impact on the Company's diluted earnings per share until the average share price of the Company's common stock exceeds the conversion price of \$21.01 per share in any applicable period. See the computation of earnings per share below for the dilutive impact of the Notes for the three and six months ended July 1, 2022 and July 2, 2021.

In connection with the offering of the Notes, the Company entered into Capped Calls (see further discussion in Note 13), which are intended to reduce or offset the potential dilution from shares of common stock issued upon conversion of the Notes. However, this impact is not included when calculating potentially dilutive shares since their effect is anti-dilutive. The Capped Calls will mitigate dilution from the conversion of the Notes up to the Company's common stock price of \$23.79. If the Notes are converted at a price higher than \$23.79 per share, the Capped Calls will no longer mitigate dilution from the conversion of the Notes.

The table below presents the computation of basic and diluted earnings per share (\$ and shares in millions, except per share amounts):

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Numerator:				
Income from continuing operations, net of tax	\$ 44.5	\$ 79.0	\$ 114.9	\$ 140.8
Income from discontinued operations, net of tax	\$ 2.6	\$ 11.1	\$ 7.1	\$ 21.0
Net income	\$ 47.1	\$ 90.1	\$ 122.0	\$ 161.8
Denominator:				
Weighted-average common shares outstanding used in basic earnings (loss) per share	162.9	161.2	162.6	160.8
Incremental common shares from:				
Assumed exercise of dilutive options and vesting of dilutive restricted stock units	3.3	4.5	3.8	4.5
Assumed conversion of the Notes	12.3	12.7	12.8	11.9
Weighted average common shares outstanding used in diluted earnings (loss) per share	<u>178.5</u>	<u>178.4</u>	<u>179.2</u>	<u>177.2</u>
Earnings per share:				
Earnings from continuing operations - basic	\$ 0.27	\$ 0.49	\$ 0.71	\$ 0.88
Earnings from continuing operations - diluted	\$ 0.25	\$ 0.44	\$ 0.64	\$ 0.79
Earnings from discontinued operations - basic	\$ 0.02	\$ 0.07	\$ 0.04	\$ 0.13
Earnings from discontinued operations - diluted	\$ 0.01	\$ 0.06	\$ 0.04	\$ 0.12
Earnings - basic	\$ 0.29	\$ 0.56	\$ 0.75	\$ 1.01
Earnings - diluted	\$ 0.26	\$ 0.51 *	\$ 0.68	\$ 0.91

* Earnings per share is computed independently for earnings per share from continuing operations and earnings per share from discontinued operations. The sum of earnings per share from continuing operations and earnings per share from discontinued operations does not equal earnings per share due to rounding.

The following table presents the number of outstanding securities not included in the computation of diluted income per share, because their effect was anti-dilutive (in millions):

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Stock-based awards	1.9	1.4	1.3	1.0
Total	<u>1.9</u>	<u>1.4</u>	<u>1.3</u>	<u>1.0</u>

NOTE 19. SEGMENT INFORMATION

The Company operates and reports its results in two separate business segments, the Specialty Products & Technologies and Equipment & Consumables segments. When determining the reportable segments, the Company aggregated operating segments based on their similar economic and operating characteristics. Operating profit represents total revenues less operating expenses, excluding nonoperating income (expense) and income taxes. Operating profit amounts in the Other segment consist of unallocated corporate costs and other costs not considered part of management's evaluation of reportable segment operating performance. The identifiable assets by segment are those used in each segment's operations. Inter-segment amounts are not significant and are eliminated to arrive at consolidated totals.

The Company's Specialty Products & Technologies products include implants, prosthetics, orthodontic brackets, aligners and lab products. The Company's Equipment & Consumables products include traditional consumables such as bonding agents and cements, impression materials, infection prevention products and restorative products, while the Company's equipment products include digital imaging systems, software and other visualization and magnification systems.

On December 31, 2021, the Company completed the sale of its KaVo Treatment Unit and Instrument Business, which was part of the Company's Equipment & Consumables segment. The previously reported amounts for the KaVo Treatment Unit and Instrument Business have been reclassified to discontinued operations for all periods presented. All segment information and descriptions exclude the KaVo Treatment Unit and Instrument Business. Refer to Note 3 for more information on the Company's discontinued operations.

Segment related information is shown below (\$ in millions):

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Sales:				
Specialty Products & Technologies	\$ 407.7	\$ 386.2	\$ 804.8	\$ 752.7
Equipment & Consumables	238.1	251.0	472.4	497.1
Total	<u>\$ 645.8</u>	<u>\$ 637.2</u>	<u>\$ 1,277.2</u>	<u>\$ 1,249.8</u>
Operating profit and reconciliation to income before taxes from continuing operations:				
Specialty Products & Technologies	\$ 74.0	\$ 71.7	\$ 144.3	\$ 150.1
Equipment & Consumables	30.2	40.6	75.7	85.6
Other	<u>(39.0)</u>	<u>(29.0)</u>	<u>(63.3)</u>	<u>(57.3)</u>
Operating profit	65.2	83.3	156.7	178.4
Nonoperating income (expense):				
Other income	0.3	0.3	0.6	0.6
Interest expense, net	<u>(6.4)</u>	<u>(13.6)</u>	<u>(12.3)</u>	<u>(31.6)</u>
Income before taxes from continuing operations	<u>\$ 59.1</u>	<u>\$ 70.0</u>	<u>\$ 145.0</u>	<u>\$ 147.4</u>
Identifiable assets:				
			July 1, 2022	December 31, 2021
Specialty Products & Technologies			\$ 3,347.0	\$ 3,498.2
Equipment & Consumables			2,563.6	1,946.1
Held for Sale			4.1	12.2
Other			546.3	1,117.7
Total			<u>\$ 6,461.0</u>	<u>\$ 6,574.2</u>

NOTE 20. SUBSEQUENT EVENT

On July 5, 2022, the Company completed its purchase of Osteogenics Biomedical Inc., Allotech LLC and OBI Biologics, Inc. (together "Osteogenics") for total consideration of approximately \$129.4 million, subject to certain customary adjustments as provided in the definitive agreement dated May 17, 2022. Osteogenics develops innovative regenerative solutions for periodontists, oral and maxillofacial surgeons, and clinicians involved in implant dentistry throughout the world.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with other information, including our Condensed Consolidated Financial Statements and related notes included in Part I, Item 1, Financial Information, of this Quarterly Report on Form 10-Q, our consolidated and combined financial statements appearing in our Annual Report on Form 10-K for the year ended December 31, 2021 (the “2021 10-K”), and Part II, Item 1A, Risk Factors, of this Quarterly Report on Form 10-Q. Unless the context otherwise requires, all references herein to the “Company,” “we,” “us” or “our,” or similar terms, refer to Envista Holdings Corporation and its consolidated subsidiaries.

Certain statements included or incorporated by reference in this Quarterly Report are “forward-looking statements” within the meaning of the U.S. federal securities laws. All statements other than historical factual information are forward-looking statements, including without limitation statements regarding: the potential impacts of the COVID-19 pandemic on our business, financial condition, and results of operations; projections of revenue, expenses, profit, profit margins, tax rates, tax provisions, cash flows, pension and benefit obligations and funding requirements, our liquidity position or other projected financial measures; management’s plans and strategies for future operations, including statements relating to anticipated operating performance, cost reductions, restructuring activities, new product and service developments, competitive strengths or market position, acquisitions and the integration thereof, divestitures, spin-offs, split-offs or other distributions, strategic opportunities, securities offerings, stock repurchases, dividends and executive compensation; growth, declines and other trends in markets we sell into; future regulatory approvals and the timing thereof; outstanding claims, legal proceedings, tax audits and assessments and other contingent liabilities; future foreign currency exchange rates and fluctuations in those rates; the anticipated timing of any of the foregoing; assumptions underlying any of the foregoing; and any other statements that address events or developments that Envista intends or believes will or may occur in the future. Terminology such as “believe,” “anticipate,” “should,” “could,” “intend,” “will,” “plan,” “expect,” “estimate,” “project,” “target,” “may,” “possible,” “potential,” “forecast” and “positioned” and similar references to future periods are intended to identify forward-looking statements, although not all forward-looking statements are accompanied by such words. Forward-looking statements are based on assumptions and assessments made by our management in light of their experience and perceptions of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. These forward-looking statements are subject to a number of risks and uncertainties, including but not limited to, the following: the impact of the COVID-19 pandemic, including new variants of the virus, the pace of recovery in the markets in which we operate, global supply chain disruptions and potential staffing shortages, the conditions in the U.S. and global economy, the markets served by us and the financial markets, the impact of our debt obligations on our operations and liquidity, developments and uncertainties in trade policies and regulations, contractions or growth rates and cyclicity of markets we serve, fluctuations in inventory of our distributors and customers, loss of a key distributor, our relationships with and the performance of our channel partners, competition, our ability to develop and successfully market new products and services, the potential for improper conduct by our employees, agents or business partners, our compliance with applicable laws and regulations (including regulations relating to medical devices and the health care industry), the results of our clinical trials and perceptions thereof, penalties associated with any off-label marketing of our products, modifications to our products that require new marketing clearances or authorizations, our ability to effectively address cost reductions and other changes in the health care industry, our ability to successfully identify and consummate appropriate acquisitions and strategic investments, our ability to integrate the businesses we acquire and achieve the anticipated benefits of such acquisitions, contingent liabilities relating to acquisitions, investments and divestitures, security breaches or other disruptions of our information technology systems or violations of data privacy laws, our ability to adequately protect our intellectual property, the impact of our restructuring activities on our ability to grow, risks relating to currency exchange rates, changes in tax laws applicable to multinational companies, litigation and other contingent liabilities including intellectual property and environmental, health and safety matters, risks relating to product, service or software defects, risks relating to product manufacturing, commodity costs and surcharges, our ability to adjust purchases and manufacturing capacity to reflect market conditions, reliance on sole or limited sources of supply, the impact of regulation on demand for our products and services, labor matters, international economic, political, legal, compliance and business factors and disruptions relating to war, terrorism, climate change, widespread protests and civil unrest, man-made and natural disasters, public health issues and other events, and other risks and uncertainties set forth under “Item 1A. Risk Factors” in the 2021 10-K and this Quarterly Report on Form 10-Q.

Forward-looking statements are not guarantees of future performance and actual results may differ materially from the results, developments and business decisions contemplated by our forward-looking statements. Accordingly, you should not place undue reliance on any such forward-looking statements. Forward-looking statements contained herein speak only as of the date of this Quarterly Report. Except to the extent required by applicable law, we do not assume any obligation to update or revise any forward-looking statement, whether as a result of new information, future events and developments or otherwise.

BASIS OF PRESENTATION

The accompanying Condensed Consolidated Financial Statements present our historical financial position, results of operations, changes in stockholders' equity and cash flows in accordance with GAAP.

Sale of the KaVo Treatment Unit and Instrument Business

On December 31, 2021, we completed the Divestiture to Planmeca, pursuant to the Purchase Agreement among us, Planmeca, and Planmeca Oy, as guarantor. In accordance with the terms of the Purchase Agreement, we received cash consideration of \$317.3 million upon closing, which remains subject to certain adjustments. We received the earnout payment of \$30.0 million in the first six months of 2022. We also recognized a gain of \$2.7 million and \$7.3 million on the Divestiture during the three and six months ended July 1, 2022, respectively, due primarily to the recognition of certain purchase price adjustments.

The Divestiture was part of our strategy to structurally improve our long-term margins and represents a strategic shift with a major effect on our operations and financial results as described in ASC 205-20. The sale met the criteria to be accounted for as a discontinued operation. Accordingly, we have applied discontinued operations treatment for the Divestiture as required by ASC 205-20. In accordance with ASC 205-20, we reclassified the Divestiture to assets and liabilities held for sale on our Condensed Consolidated Balance Sheets as of July 1, 2022 and December 31, 2021 and reclassified the financial results of the Divestiture in our Condensed Consolidated Statements of Income for all periods presented. Our Condensed Consolidated Statements of Cash Flows for the six months ended July 1, 2022 and July 2, 2021 include the financial results of the KaVo Treatment Unit and Instrument Business. We also revised our discussion and presentation of operating and financial results to be reflective of our continuing operations as required by ASC 205-20. All segment information and descriptions exclude the KaVo Treatment Unit and Instrument Business.

With the sale of the KaVo Treatment Unit and Instrument business, we continue to make significant progress toward our long-term goal of re-calibrating our product portfolio to higher growth and higher margin segments. The Divestiture shifts our revenue mix from approximately 50% each for the Specialty Products & Technology and Equipment & Consumables segments to approximately 60% for the Specialty Products & Technology segment and approximately 40% for the Equipment & Consumables segment. The Specialty Products & Technology segment is a higher growth and higher margin business than the Equipment & Consumables segment. The Divestiture is a strategic shift that will allow us to focus more on higher value and higher margin consumables, imaging, and digital workflow solutions.

OVERVIEW

General

We provide products that are used to diagnose, treat and prevent disease and ailments of the teeth, gums and supporting bone, as well as to improve the aesthetics of the human smile. With leading brand names, innovative technology and significant market positions, we are a leading worldwide provider of a broad range of dental implants, orthodontic appliances, general dental consumables, equipment and services, and are dedicated to driving technological innovations that help dental professionals improve clinical outcomes and enhance productivity. Our research and development, manufacturing, sales, distribution, service and administrative facilities are located in more than 30 countries across North America, Asia, Europe, the Middle East and Latin America.

We operate in two business segments: Specialty Products & Technologies and Equipment & Consumables. Our Specialty Products & Technologies segment develops, manufactures and markets dental implant systems, dental prosthetics and associated treatment software and technologies, as well as orthodontic bracket systems, aligners and lab products. Our Equipment & Consumables segment develops, manufactures and markets dental equipment and supplies used in dental offices, including digital imaging systems, software and other visualization/magnification systems; endodontic systems and related consumables; and restorative materials and instruments, rotary burs, impression materials, bonding agents and cements and infection prevention products.

For both the three and six months ended July 1, 2022, sales derived from customers outside of the United States were 51.3%, compared to the three and six months ended July 2, 2021, of 51.4% and 51.0%, respectively. As a global provider of dental consumables, equipment and services, our operations are affected by worldwide, regional and industry-specific economic and political factors. Given the broad range of dental products, software and services provided and geographies served, we do not use any indices other than general economic trends to predict our overall outlook. Our individual businesses monitor key competitors and customers, including to the extent possible their sales, to gauge relative performance and the outlook for the future.

As a result of our geographic and product line diversity, we face a variety of opportunities and challenges, including rapid technological development in most of our served markets, the expansion and evolution of opportunities in emerging markets, trends and costs associated with a global labor force, consolidation of our competitors and increasing regulation. We operate in a highly competitive business environment in most markets, and our long-term growth and profitability will depend in particular on our ability to expand our business in emerging geographies and market segments, identify, consummate and integrate appropriate acquisitions, develop innovative and differentiated new products and services, expand and improve the effectiveness of our sales force, continue to reduce costs and improve operating efficiency and quality and effectively address the demands of an increasingly regulated global environment. We are making significant investments to address the rapid pace of technological change in our served markets and to globalize our manufacturing, research and development and customer-facing resources (particularly in emerging markets and our dental implant business) in order to be responsive to our customers throughout the world and improve the efficiency of our operations.

Key Trends and Conditions Affecting Our Results of Operations

There have been no material changes to the key trends and conditions affecting our results of operations that were disclosed in our 2021 10-K, except as follows:

COVID-19

The extent of the impact of the COVID-19 pandemic on our business is highly uncertain and difficult to predict because of the dynamic and evolving nature of the situation. During the three and six months ended July 1, 2022, notwithstanding improvement in many markets in which we operate due to a return to more normalized business operations, certain markets continue to be adversely impacted either directly attributable to COVID-19 or as a result of prior COVID-19 influenced policies. Late in the first quarter of 2022, the Chinese authorities instituted COVID-19-related lockdowns, shut-downs and restrictions in certain parts of China, specifically the Shanghai area, which impacted our operations in China. These restrictions were lifted in early June 2022, but the extent to which continuing effects from these restrictions and any future restrictions may impact our operations remains uncertain.

The severity of the impact of the COVID-19 pandemic on our business will depend on a number of factors, including, but not limited to, the scope and duration of the pandemic, the rise of new variants, the extent and severity of the impact on our customers, the measures that have been and may be taken to contain the virus (including its various mutations) and mitigate its impact, U.S. and foreign government actions to respond to the reduction in global economic activity, our ability to continue to manufacture and source our products and to find suitable alternative products at reasonable prices, our ability to continue to ship and deliver our products in a cost-effective and timely manner, uncertain demand, staffing shortages, the impact of the pandemic and associated economic downturn on our ability to access capital if and when needed and how quickly and to what extent normal economic and operating conditions can continue, all of which are uncertain and cannot be predicted. Even after the COVID-19 pandemic has subsided, we may continue to experience materially adverse impacts on our financial condition and results of operations.

For additional information on the risks of COVID-19 to our business, please refer to the “Item 1A. Risk Factors—Risks Related to COVID-19” section of our 2021 10-K.

Russia-Ukraine Conflict

Russia’s invasion of Ukraine and the global response to this invasion, including sanctions imposed by the U.S. and other countries, could have an adverse impact on our business, including our ability to market and sell products in the affected regions, impacting our ability to enforce our intellectual property rights in Russia, creating disruptions in the global supply chain, and potentially having an adverse impact on the global economy, financial markets, energy markets, currency rates and otherwise. Russia’s invasion of Ukraine did not have a material impact on our financial position or results of operations as of and for the three and six months ended July 1, 2022.

Foreign Currency Exchange Rates

On a period-over-period basis, currency exchange rates negatively impacted reported sales by 3.6% and 2.9% for the three and six months ended July 1, 2022, respectively, compared to the comparable period of 2021, primarily due to the strength of the U.S. dollar against most major currencies. Any future strengthening of the U.S. dollar against major currencies would negatively impact our sales and results of operations for the remainder of the year, and any weakening of the U.S. dollar against major currencies would positively impact our sales and results of operations for the remainder of the year.

General Economic Conditions

In addition to industry-specific factors, we, like other businesses, face challenges related to global economic conditions, including rising inflation, slowing economic growth, and continuing supply chain disruptions. Dental costs are largely out-of-pocket for the consumer and thus utilization rates can vary significantly depending on economic growth. While many of our products are considered necessary by patients regardless of the economic environment, certain products and services that support discretionary dental procedures may be more susceptible to changes in economic conditions.

Acquisitions

Our growth strategy contemplates future acquisitions. Our operations and results can be affected by the rate and extent to which appropriate acquisition opportunities are available, acquired businesses are effectively integrated and anticipated synergies or cost savings are achieved.

On April 20, 2022, we completed our acquisition of Carestream's Intraoral Scanner Business for total consideration of approximately \$580.0 million. The Intraoral Scanner Business is part of our Equipment & Consumables segment. For the three and six months ended July 1, 2022, the Intraoral Scanner Business' revenue and earnings were not material to the Condensed Consolidated Statements of Income.

Subsequent to the quarter ended July 1, 2022, we completed our purchase of Osteogenics Biomedical Inc., Allotech LLC and OBI Biologics, Inc. (together "Osteogenics") for total consideration of approximately \$129.4 million, subject to certain customary adjustments as provided in the definitive agreement dated May 17, 2022. Osteogenics develops innovative regenerative solutions for periodontists, oral and maxillofacial surgeons, and clinicians involved in implant dentistry throughout the world.

Envista Business Systems

Throughout this discussion, references to sales volume refer to the impact of both price and unit sales and references to productivity improvements generally refer to improved cost-efficiencies resulting from the ongoing application of Envista Business Systems ("EBS"). We believe our deep-rooted commitment to EBS helps drive our market leadership and differentiates us in the dental products industry. EBS encompasses not only lean tools and processes, but also methods for driving growth, innovation and leadership. Within the EBS framework, we pursue a number of ongoing strategic initiatives relating to customer insight generation, product development and commercialization, efficient sourcing, and improvement in manufacturing and back-office support, all with a focus on continually improving quality, delivery, cost, growth and innovation.

Non-GAAP Measures

References to the non-GAAP measure of core sales (also referred to as core revenues or sales/revenues from existing businesses) refer to sales calculated according to GAAP, but excluding:

- sales from acquired businesses for one year from the acquisition date;
- sales from discontinued products; and
- the impact of currency translation.

Sales from discontinued products includes major brands or major products that we have made the decision to discontinue as part of a portfolio restructuring. Discontinued brands or products consist of those which we (1) are no longer manufacturing, (2) are no longer investing in the research or development of, and (3) expect to discontinue all significant sales of within one year from the decision date. The portion of sales attributable to discontinued brands or products is calculated as the net decline of the applicable discontinued brand or product from period-to-period.

The portion of sales attributable to currency translation is calculated as the difference between:

- the period-to-period change in sales; and
- the period-to-period change in sales after applying current period foreign exchange rates to the prior year period.

Core sales growth should be considered in addition to, and not as a replacement for or superior to, sales, and may not be comparable to similarly titled measures reported by other companies. We believe that reporting the non-GAAP financial measure of core sales growth provides useful information to investors by helping identify underlying growth trends in our on-going business and facilitating comparisons of our sales performance with our performance in prior and future periods and to our peers. We also use core sales growth to measure our operating and financial performance. We exclude sales from discontinued products because discontinued products do not have a continuing contribution to operations and management believes that excluding such items provides investors with a means of evaluating our on-going operations and facilitates comparisons to our peers. We exclude the effect of currency translation from core sales because currency translation is not under our control, is subject to volatility and can obscure underlying business trends.

RESULTS OF OPERATIONS

All comparisons, variances, increases or decreases discussed below are for the three and six months ended July 1, 2022 compared to the three and six months ended July 2, 2021.

(\$ in millions)	Three Months Ended				% Change
	July 1, 2022		July 2, 2021		
Sales	\$ 645.8	100.0%	\$ 637.2	100.0%	1.3 %
Cost of sales	276.0	42.7%	268.6	42.2%	2.8 %
Gross profit	369.8	57.3%	368.6	57.8%	0.3 %
Operating costs:					
Selling, general and administrative (“SG&A”) expenses	279.5	43.3%	259.4	40.7%	7.7 %
Research and development (“R&D”) expenses	25.1	3.9%	25.9	4.1%	(3.1)%
Operating profit	65.2	10.1%	83.3	13.1%	(21.7)%
Nonoperating income (expense):					
Other income	0.3	—%	0.3	—%	— %
Interest expense, net	(6.4)	(1.0)%	(13.6)	(2.1)%	(52.9)%
Income before income taxes	59.1	9.2%	70.0	11.0%	(15.6)%
Income tax expense	14.6	2.3%	(9.0)	(1.4)%	(262.2)%
Income from continuing operations	44.5	6.9%	79.0	12.4%	(43.7)%
Income from discontinued operations, net of tax	2.6	0.4%	11.1	1.7%	(76.6)%
Net income	\$ 47.1	7.3%	\$ 90.1	14.1%	(47.7)%
Effective tax rate from continuing operations	24.7 %		(12.9)%		

(\$ in millions)	Six Months Ended				% Change
	July 1, 2022		July 2, 2021		
Sales	\$ 1,277.2	100.0%	\$ 1,249.8	100.0%	2.2 %
Cost of sales	533.3	41.8%	522.8	41.8%	2.0 %
Gross profit	743.9	58.2%	727.0	58.2%	2.3 %
Operating costs:					
SG&A expenses	537.7	42.1%	496.9	39.8%	8.2 %
R&D expenses	49.5	3.9%	51.7	4.1%	(4.3)%
Operating profit	156.7	12.3%	178.4	14.3%	(12.2)%
Nonoperating income (expense):					
Other income	0.6	—%	0.6	—%	— %
Interest expense, net	(12.3)	(1.0)%	(31.6)	(2.5)%	(61.1)%
Income before income taxes	145.0	11.4%	147.4	11.8%	(1.6)%
Income tax expense	30.1	2.4%	6.6	0.5%	356.1 %
Income from continuing operations	114.9	9.0%	140.8	11.3%	(18.4)%
Income from discontinued operations, net of tax	7.1	0.6%	21.0	1.7%	(66.2)%
Net income	\$ 122.0	9.6%	\$ 161.8	12.9%	(24.6)%
Effective tax rate from continuing operations	20.8 %		4.5 %		

GAAP Reconciliation

Sales and Core Sales Growth

	% Change Three Month Period Ended July 1, 2022 vs. Comparable 2021 Period	% Change Six Month Period Ended July 1, 2022 vs. Comparable 2021 Period
Total sales growth (GAAP)	1.3 %	2.2 %
Plus the impact of:		
Acquisition	(0.9)%	(0.4)%
Currency exchange rates	3.6 %	2.9 %
Core sales growth (non-GAAP)	<u>4.0 %</u>	<u>4.7 %</u>

Sales and core sales growth for the three months ended July 1, 2022 increased 1.3% and 4.0%, respectively, compared to the comparable period in 2021. Price positively impacted sales growth by 2.5% on a period-over-period basis, combined with an overall sales increase of 1.5% due to higher volume. Sales in developed markets increased due to strong growth in Western Europe and modest growth in North America. Sales in emerging markets increased primarily due to continued recovery from the COVID-19 pandemic.

Sales and core sales growth for the six months ended July 1, 2022 increased 2.2% and 4.7%, respectively, compared to the comparable period in 2021. Price positively impacted sales growth by 2.0% on a period-over-period basis, combined with an overall sales increase of 2.7% due to higher volume. Sales in developed markets increased primarily due to an increase in North America and Western Europe. Sales in emerging markets increased primarily due to continued recovery from the COVID-19 pandemic, partially offset by a decrease in China due to localized COVID-19 pandemic related lockdowns.

COST OF SALES AND GROSS PROFIT

(\$ in millions)	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Sales	\$ 645.8	\$ 637.2	\$ 1,277.2	\$ 1,249.8
Cost of sales	276.0	268.6	533.3	522.8
Gross profit	<u>\$ 369.8</u>	<u>\$ 368.6</u>	<u>\$ 743.9</u>	<u>\$ 727.0</u>
Gross profit margin	57.3 %	57.8 %	58.2 %	58.2 %

The increase in cost of sales during the three months ended July 1, 2022, as compared to the comparable period in 2021, was primarily due to higher sales, restructuring spend, unfavorable impact from foreign exchange rates and the unfavorable incremental period-over-period material price variances due in part to inflation.

The increase in cost of sales during the six months ended July 1, 2022, as compared to the comparable period in 2021, was primarily due to higher sales and unfavorable impact from foreign exchange rates and the unfavorable incremental period-over-period material price variances due in part to inflation, partially offset by favorable incremental period-over-period savings associated with productivity improvements.

The decrease in gross profit margin percentage during the three months ended July 1, 2022, as compared to the comparable period in 2021, was primarily due to higher restructuring spend and unfavorable impact from foreign exchange rates and the impact of incremental period-over-period material price variances due in part to inflation, partially offset by higher sales volume, price, and product mix.

Gross profit margin percentage for the six months ended July 1, 2022 was flat to the comparable period in 2021, primarily due to the unfavorable impact from foreign exchange rates and the impact of incremental period-over-period material price variances due in part to inflation, offset by higher sales volume and price.

OPERATING EXPENSES

(\$ in millions)	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Sales	\$ 645.8	\$ 637.2	\$ 1,277.2	\$ 1,249.8
Selling, general and administrative expenses	\$ 279.5	\$ 259.4	\$ 537.7	\$ 496.9
Research and development expenses	\$ 25.1	\$ 25.9	\$ 49.5	\$ 51.7
SG&A as a % of sales	43.3 %	40.7 %	42.1 %	39.8 %
R&D as a % of sales	3.9 %	4.1 %	3.9 %	4.1 %

The increase in SG&A expenses as a percentage of sales for the three and six months ended July 1, 2022 as compared to the comparable periods of 2021, was primarily due to higher sales and marketing expenses and acquisition related expenses, partially offset by higher sales volume.

R&D expenses as a percentage of sales for the three and six months ended July 1, 2022, were relatively flat to the comparable periods in 2021.

OPERATING PROFIT

Operating profit margin was 10.1% for the three months ended July 1, 2022, as compared to an operating margin of 13.1% for the comparable period in 2021. The decrease in operating profit margin was primarily due to higher sales and marketing expenses, acquisition related expenses, restructuring spend and unfavorable impact of foreign exchange rates and the unfavorable incremental period-over-period material price variances due in part to inflation, partially offset by higher sales volume.

Operating profit margin was 12.3% for the six months ended July 1, 2022, as compared to an operating margin of 14.3% for the comparable period in 2021. The decrease in operating profit margin was primarily due to higher sales and marketing, acquisition related expenses and unfavorable impact of foreign exchange rates and the unfavorable incremental period-over-period material price variances due in part to inflation, partially offset by higher sales volume and favorable incremental period-over-period savings associated with productivity.

OTHER INCOME

Net periodic benefit costs included in other income, were \$0.3 million for the three months ended July 1, 2022 and July 2, 2021, and \$0.6 million for the six months ended July 1, 2022 and July 2, 2021.

INTEREST COSTS AND FINANCING

Interest costs were \$6.4 million and \$13.6 million for the three months ended July 1, 2022 and July 2, 2021, respectively and \$12.3 million and \$31.6 million for the six months ended July 1, 2022 and July 2, 2021, respectively. The decrease in interest expense for the three and six months ended July 1, 2022 as compared to the comparable periods of 2021 was due to lower interest rates on the outstanding debt as a result of entering into the amendment to the Credit Agreement and making a \$472.0 million partial repayment of the Euro term loan in February 2021. In addition, we are no longer incurring accretion expense on the convertible debt discount during the current year period as a result of adopting ASU 2020-06. Refer to Note 13 for a further discussion of the convertible debt instrument.

INCOME TAXES

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Effective tax rate from continuing operations	24.7 %	(12.9)%	20.8 %	4.5 %

Our effective tax rate from continuing operations of 24.7% and 20.8% for the three and six months ended July 1, 2022, respectively, was higher compared to the comparable periods in 2021 primarily due to the Company's geographical mix of earnings and certain Swiss discrete tax benefits in 2021 not recurring in 2022.

COMPREHENSIVE INCOME (LOSS)

For the three months ended July 1, 2022, comprehensive loss was \$25.4 million as compared to comprehensive income of \$105.1 million for the comparable period of 2021. For the six months ended July 1, 2022, comprehensive loss was \$8.8 million compared to comprehensive income of \$124.7 million for the six months ended July 2, 2021. The decrease for the three and six months ended July 1, 2022, was primarily due to lower net income generated in the current period, combined with higher foreign currency translation losses.

RESULTS OF OPERATIONS - BUSINESS SEGMENTS

Specialty Products & Technologies

Our Specialty Products & Technologies segment develops, manufactures and markets dental implant systems, dental prosthetics and associated treatment software and technologies, as well as orthodontic bracket systems, aligners and lab products.

Specialty Products & Technologies Selected Financial Data

(\$ in millions)	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Sales	\$ 407.7	\$ 386.2	\$ 804.8	\$ 752.7
Operating profit	\$ 74.0	\$ 71.7	\$ 144.3	\$ 150.1
Operating profit as a % of sales	18.2 %	18.6 %	17.9 %	19.9 %

Sales and Core Sales Growth

	% Change Three Month Period Ended July 1, 2022 vs. Comparable 2021 Period	% Change Six Month Period Ended July 1, 2022 vs. Comparable 2021 Period
Total sales growth (GAAP)	5.6 %	6.9 %
Plus the impact of:		
Currency exchange rates	4.0 %	3.5 %
Core sales growth (non-GAAP)	9.6 %	10.4 %

Sales

Sales and core sales growth for the three months ended July 1, 2022 increased 5.6% and 9.6%, respectively, compared to the comparable period in 2021. Price positively impacted sales growth by 1.4% on a period-over-period basis, while sales increased by 8.2% due to higher volume and stronger demand for implant systems and orthodontic products. Sales in developed markets increased primarily due to an increase in North America and Western Europe. Sales in emerging markets increased primarily due to reduced impact of COVID-19 measures.

Sales and core sales growth for the six months ended July 1, 2022 increased 6.9% and 10.4%, respectively, compared to the comparable period in 2021. Price positively impacted sales growth by 1.4% on a period-over-period basis, while sales increased by 9.0% due to higher volume as demand improved for implant systems and orthodontic products. Sales in developed markets increased primarily due to an increase in North America and Western Europe. Sales in emerging markets increased primarily due to reduced impact of COVID-19 measures.

Operating Profit

Operating profit margin was 18.2% for the three months ended July 1, 2022, as compared to an operating profit margin of 18.6% for the comparable period of 2021. Operating profit margin was 17.9% for the six months ended July 1, 2022, as compared to an operating profit margin of 19.9% for the comparable period of 2021. The decrease in operating profit margin for both the three and six month periods was primarily due to higher sales and marketing, higher related compensation, unfavorable product mix and the unfavorable incremental period-over-period material price variances due in part to inflation, partially offset by higher sales volume and favorable period-over-period savings associated with productivity improvements.

EQUIPMENT & CONSUMABLES

Our Equipment & Consumables segment develops, manufactures and markets dental equipment and supplies used in dental offices, including digital imaging systems, software and other visualization/magnification systems; endodontic systems and related consumables; restorative materials and instruments, rotary burs, impression materials, bonding agents and cements and infection prevention products.

Equipment & Consumables Selected Financial Data

(\$ in millions)	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Sales	\$ 238.1	\$ 251.0	\$ 472.4	\$ 497.1
Operating profit	\$ 30.2	40.6	\$ 75.7	\$ 85.6
Operating profit as a % of sales	12.7 %	16.2 %	16.0 %	17.2 %

Sales and Core Sales Growth

	% Change Three Month Period Ended July 1, 2022 vs. Comparable 2021 Period	% Change Six Month Period Ended July 1, 2022 vs. Comparable 2021 Period
Total sales growth (GAAP)	(5.1)%	(5.0)%
Plus the impact of:		
Acquisition	(2.2)%	(1.1)%
Currency exchange rates	2.6 %	2.1 %
Core sales growth (non-GAAP)	(4.7)%	(4.0)%

Sales

Sales and core sales growth for the three months ended July 1, 2022 decreased 5.1% and 4.7%, respectively, compared to the comparable period in 2021. Price positively impacted sales growth by 4.3% on a period-over-period basis, while sales decreased by 9.0% due to lower demand for our imaging products, infection prevention products and restorative solutions. Sales for the three months ended July 1, 2022, were positively impacted by the acquisition of our new Intraoral Scanner Business. Sales in developed markets decreased primarily due to a decrease in North America and Western Europe. Sales in emerging markets decreased primarily due to a decrease in China due to localized COVID-19 pandemic related lockdowns.

Sales and core sales growth for the six months ended July 1, 2022 decreased 5.0% and 4.0%, respectively, compared to the comparable period in 2021. Price positively impacted sales growth by 3.1% on a period-over-period basis, while sales decreased by 7.1% due to lower demand for our imaging products, infection prevention products and restorative solutions. Sales for the six month ended July 1, 2022, were positively impacted by the acquisition of our new Intraoral Scanner Business. Sales in developed markets decreased primarily due to a decrease in North America partially offset by an increase in Western Europe. Sales in emerging markets decreased primarily due to a decrease in China due to localized COVID-19 pandemic related lockdowns.

Operating Profit

Operating profit margin was 12.7% for the three months ended July 1, 2022, as compared to an operating profit margin of 16.2% for the comparable period of 2021. The decrease in operating profit margin was primarily due to lower sales volumes, higher restructuring spend; amortization of intangibles and the unfavorable incremental period-over-period material price variances due in part to inflation, partially offset by higher prices and favorable product mix.

Operating profit margin was 16.0% for the six months ended July 1, 2022, as compared to an operating profit margin of 17.2% for the comparable period of 2021. The decrease in operating profit margin was primarily due to lower sales volumes, higher compensation spend, amortization of intangibles and the unfavorable incremental period-over-period material price variances due in part to inflation, partially offset by favorable product mix, higher prices and favorable period-over-period savings associated with productivity improvements.

LIQUIDITY AND CAPITAL RESOURCES

We assess our liquidity in terms of our ability to generate cash to fund our operating and investing activities. We continue to generate substantial cash from operating activities and believe that our operating cash flow and other sources of liquidity are sufficient to allow us to manage our capital structure on a short-term and long-term basis and continue investing in existing businesses and consummating strategic acquisitions. For the six months ended July 2, 2021, balances represent activity for the entire Divestiture, while balances for the six months ended July 1, 2022, represent activity for the remaining Relevant Jurisdictions.

Following is an overview of our cash flows and liquidity:

Overview of Cash Flows and Liquidity

	Six Months Ended	
	July 1, 2022	July 2, 2021
Net cash provided by operating activities	\$ 25.7	\$ 137.3
Acquisitions, net of cash acquired	\$ (569.8)	\$ —
Payments for additions to property, plant and equipment	(31.9)	(28.5)
Proceeds from sale of KaVo treatment unit and instrument business	28.8	—
All other investing activities, net	(13.6)	5.7
Net cash used in investing activities	\$ (586.5)	\$ (22.8)
Payment of debt issuance and other deferred financing costs	—	(2.3)
Proceeds from borrowings	0.3	—
Repayment of borrowings	(0.5)	(475.6)
Proceeds from stock option exercises	15.4	13.8
Tax withholding payment related to net settlement of equity awards	(8.1)	(5.3)
All other financing activities	—	6.3
Net cash provided by (used in) financing activities	\$ 7.1	\$ (463.1)

Operating Activities

Cash flows from operating activities can fluctuate significantly from period-to-period due to working capital needs and the timing of payments for income taxes, restructuring activities, pension funding and other items impacting reported cash flows.

Net cash provided by operating activities was \$25.7 million during the six months ended July 1, 2022, as compared to net cash provided by operating activities of \$137.3 million for the comparable period of 2021, primarily due to lower net income and less cash generated from working capital.

Investing Activities

Cash flows relating to investing activities consist primarily of cash used for capital expenditures and acquisitions. Capital expenditures are made primarily for increasing capacity, replacing equipment, supporting new product development and improving information technology systems.

Net cash used in investing activities was \$586.5 million for the six months ended July 1, 2022, as compared to net cash used in investing activities of \$22.8 million for the comparable period in 2021, primarily due to the Intraoral Scanner Business acquisition and higher purchases of property, plant and equipment, partially offset by the earnout from the sale of the KaVo Treatment Unit and Instrument Business.

Financing Activities and Indebtedness

Cash flows relating to financing activities consist primarily of cash flows associated with debt borrowings and the issuance of common stock.

Net cash provided by financing activities was \$7.1 million during the six months ended July 1, 2022, compared to \$463.1 million used in financing activities for the comparable period of 2021, primarily due to the February 2021 repayment of \$472.0 million of the Euro Term Loan Facility in connection with an amendment to the Credit Agreement.

For a description of our outstanding debt as of July 1, 2022, refer to Note 13 to our Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

We intend to satisfy any short-term liquidity needs that are not met through operating cash flow and available cash primarily through our Revolving Credit Facility.

As of July 1, 2022, we had no borrowings outstanding under the Revolving Credit Facility.

Cash and Cash Requirements

As of July 1, 2022, we held \$523.1 million of cash and cash equivalents that were held on deposit with financial institutions. Of this amount, \$58.0 million was held within the United States and \$465.1 million was held outside of the United States. We will continue to have cash requirements to support working capital needs, capital expenditures and acquisitions, pay interest and service debt, pay taxes and any related interest or penalties, fund our restructuring activities and pension plans as required and support other business needs. We generally intend to use our revolving credit facility, available cash and internally generated funds to meet these cash requirements, but in the event that additional liquidity is required, particularly in connection with acquisitions, we may need to enter into new credit facilities or access the capital markets. We may also access the capital markets from time to time to take advantage of favorable interest rate environments or other market conditions. However, there is no guarantee that we will be able to obtain alternative sources of financing on commercially reasonable terms or at all. See “Item 1A. Risk Factors—Risks Related to Our Business” in our 2021 10-K.

While repatriation of some cash held outside the United States may be restricted by local laws, most of our foreign cash could be repatriated to the United States. Following enactment of the Tax Cut and Jobs Act of 2017 (“TCJA”) and the associated transition tax, in general, repatriation of cash to the United States can be completed with no incremental U.S. tax; however, repatriation of cash could subject us to non-U.S. jurisdictional taxes on distributions. The cash that our non-U.S. subsidiaries hold for indefinite reinvestment is generally used to finance foreign operations and investments, including acquisitions. The income taxes, if any, applicable to such earnings including basis differences in our foreign subsidiaries are not readily determinable.

As of July 1, 2022, we believe that we have sufficient sources of liquidity to satisfy our cash needs over the next 12 months and beyond, including our cash needs in the United States.

There were no material changes to our contractual obligations during the three and six months ended July 1, 2022. For a description of our remaining contractual obligations, such as leases see “Item 8. Financial Statements and Supplementary Data - Notes to Condensed Consolidated Financial Statements - “Note 8. Leases” in the 2021 10-K.

Off-Balance Sheet Arrangements

There were no material changes to the Company’s off-balance sheet arrangements described in the 2021 10-K that would have a material impact on the Company’s Condensed Consolidated Financial Statements.

Debt Financing Transactions

For a description of our outstanding debt as of July 1, 2022, refer to Note 13 to our Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

Sale of the KaVo Treatment Unit and Instrument Business

The proceeds from the Divestiture will allow us to continue our product portfolio transformation with a disciplined approach to capital deployment.

CRITICAL ACCOUNTING ESTIMATES

There were no material changes to our critical accounting estimates described in the 2021 10-K that have had a material impact on our Condensed Consolidated Financial Statements.

The extent of the impact of the COVID-19 pandemic on our business is highly uncertain and difficult to predict. If actual results are not consistent with management's estimates and assumptions used for valuation allowances, contingencies, potential impairments, revenue recognition and income taxes, the related account balances may be overstated or understated and a charge or credit to net income may be required.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Quantitative and qualitative disclosures about market risk appear in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Qualitative and Quantitative Disclosures About Market Risk," in our 2021 10-K. There were no material changes to this information reported in our 2021 10-K during the quarter ended July 1, 2022.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our President and Chief Executive Officer, and Senior Vice President and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this report. Based on such evaluation, our President and Chief Executive Officer, and Senior Vice President and Chief Financial Officer, have concluded that, as of the end of such period, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended July 1, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

There have been no material changes to legal proceedings from our 2021 10-K. For additional information regarding legal proceedings, refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Legal Proceedings” in our 2021 10-K.

Item 1A. Risk Factors

You should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our 2021 10-K and in Part II, “Item 1A. Risk Factors” in our Quarterly Report on Form 10-Q for the quarter ended April 1, 2022 (“Q1 10-Q”), which could materially affect our business, financial position, or future results of operations. The risks described in our 2021 10-K and Q1 10-Q, are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial position, or future results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

EXHIBIT INDEX

Exhibit Number	Description
3.1	<u>Second Amended and Restated Certificate of Incorporation of Envista Holdings Corporation (incorporated by reference to Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended July 2, 2021, Commission File No. 001-39054)</u>
3.2	<u>Second Amended and Restated Bylaws of Envista Holdings Corporation effective as of August 23, 2021 (incorporated by reference to Exhibit 3.2 to Registrant's Current Report on Form 8-K filed on August 27, 2021, Commission File No. 001-39054)</u>
10.1	<u>Closing Agreement, dated as of April 20, 2022, by and among Envista Holdings Corporation and Carestream Dental Technology Parent Limited (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 1, 2022 (Commission File No. 001-39054)</u>
10.2	<u>Second Amendment Agreement to the Master Sale and Purchase Agreement, dated as of April 30, 2022, by and among Envista Holdings Corporation, planmeca Verwaltungs GmbH, Germany, and Planmeca Oy.</u>
31.1	<u>Certification of Chief Executive Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1	<u>Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 3, 2022

ENVISTA HOLDINGS CORPORATION

By: /s/ Howard H. Yu

Howard H. Yu

Senior Vice President and Chief Financial
Officer (Principal Financial and Accounting
Officer)