

“The trend towards the medium-price range has accelerated”

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Following previous investments in Brazil, Germany and Spain, Straumann recently announced that it has bought convertible bonds worth US\$30 million from MegaGen, one of the largest dental implant solution providers in South Korea. At the recent World Symposium of the International Team for Implantology in Geneva in Switzerland, on behalf of *Dental Tribune Asia Pacific, implants magazine* Managing Editor Georg Isbaner had the opportunity to talk to Frank Hemm, a member of Straumann's executive management board, about the investment and how it will affect his company's position in the Asia Pacific region.



Implants magazine Editorial Manager Georg Isbaner (left) spoke with Frank Hemm about Straumann's position in the Asia Pacific region.

(Photo: Henrik Schröder, OEMUS MEDIA AG)

According to analysts, South Korean manufacturers are expected to dominate the market for dental implants in Asia in the years to come. Is this projected development the main reason for your investment in MegaGen?

South Korea is one of the largest markets for implants in terms of volume. More than two million implants are placed every year and local manufacturers are looking to expand into other Asian markets with high potential. China is a good example, where the market is still comparatively small but under-penetrated and growing quickly.

In these markets, the premium implant segment, where Straumann has been and still is very active, is growing less dynamically than the medium- and low-price segments are. We see the same trend in other markets, like Brazil, where companies like Neodent sell higher volumes than premium providers do. Two years ago, we had to ask ourselves whether we could address the non-premium segment with our existing brand or whether we needed a second brand. We decided on the latter and purchased a 49 per cent stake in Neodent. As an established brand in the region, MegaGen gives us a foothold in the Asian "value" (medium-price) segment. The convertible bond approach means that we have the option to gain a majority stake in 2016 with a managed low risk.

Straumann has always provided premium dental implants backed by solid scientific evidence and serv-



ice excellence. These key differentiators make it necessary to use a separate brand strategy to address customers who are willing to accept lower standards and who want to pay less for implants. The value segment is growing exponentially and developing a new brand from scratch would simply take too much time and too many resources, which is the reason we chose to invest in other established companies.

Both companies have said that they will continue to operate separately. Still, do you expect any synergies to arise from this partnership?

It is important to keep both businesses completely separate to ensure that customers do not think that Straumann is MegaGen and vice versa. The only synergies we see are in supporting the value brand companies to enter selective markets, and in sharing back-office functions, like infrastructure, information technology or accounting. Everything else is handled by each company independently. Straumann products are certainly produced in Straumann facilities and this will continue to be the case in the future.

Is there the risk that you might be creating more competition for yourself with this investment?

We would not have taken this step if the market situation had not required it. The trend towards products in the medium-price range has accelerated and there

is already strong competition, even without MegaGen. We are not adding more competition; rather, we are competing where we could not compete as Straumann.

What position is your company generally aiming for in the Asia Pacific region?

We aspire to market leadership in the region. We are not there yet, partly because our Roxolid implants with the SLActive surface are not yet available in the larger markets. We recently received approval for SLActive Tissue Level implants in Japan and the sales figures demonstrate the extent of the potential of our innovative technologies.

Achieving a leading position in Asia will certainly have a positive influence on our global position.

What requirements will have to be fulfilled for you to exercise the option to convert and acquire a majority stake in MegaGen in 2016?

We are keeping a close eye on the company's development. MegaGen is a relatively new enterprise. It is growing dynamically and has many ambitions that still have to be realised. We also want to see how the market develops and the extent to which MegaGen can penetrate certain areas.

The company's valuation is another item on our radar. If our expectations are met, we can convert the bonds into shares in 2016 or require repayment with interest. That is the flexibility that this option allows us.

Should you decide to convert the bonds into stock, another large international implant conglomerate would be created. Is it only possible to survive in the long run as a large market player?

The implant market is still very fragmented and the market share of larger corporations is actually declining. There are hundreds and hundreds of smaller providers, often founded by dental clinicians, which come and go because they do not have the capability to expand internationally. Few companies succeed in making this jump and remaining in the market for a longer period.

Unlike in some industries, scale in the dental implant industry does not have inherent returns. What we are seeing is a consolidation in a larger context, as many distributors have started to include implants in their portfolios with the aim of becoming one-stop shops. This development needs careful scrutiny because implants involve other factors that only we as specialists can deliver.

Thank you very much for the interview.