THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

XRAY - Q3 2015 DENTSPLY International Inc Earnings Call

EVENT DATE/TIME: OCTOBER 28, 2015 / 12:30PM GMT

OVERVIEW:

Co. reported 3Q15 reported net income attributable to Co. of $84.6m or $0.59 per diluted share. Expects 2015 adjusted EPS to be $2.58-2.64.

CORPORATE PARTICIPANTS

Derek Leckow *DENTSPLY International Inc. - VP of IR*

Bret Wise *DENTSPLY International Inc. - Chairman and CEO*

Jim Mosch *DENTSPLY International Inc. - EVP and COO*

Chris Clark *DENTSPLY International Inc. - President and CFO*

CONFERENCE CALL PARTICIPANTS

Ravi Fadah *William Blair & Company - Analyst*

Jeff Johnson *Robert W. Baird & Company, Inc. - Analyst*

Erin Wilson *BofA Merrill Lynch - Analyst*

Steve Beuchaw *Morgan Stanley - Analyst*

David Stratton *Great Lakes Review - Analyst*

Brandon Couillard *Jefferies LLC - Analyst*

PRESENTATION

Operator

Thank you for standing by. You are currently holding for the DENTSPLY International third-quarter 2015 earnings call. At this time, we are still admitting additional participants and plan to be underway shortly. We appreciate your patience, and please continue to hold. Please stand by. Good day and welcome to the DENTSPLY International third-quarter 2015 earnings call. Today's call is being recorded. And, at this time, I'd like to turn it over to Mr. Derek Leckow, Vice president of Investor Relations. Sir, you may begin.

Derek Leckow - *DENTSPLY International Inc. - VP of IR*

Thank you, Kayla. Good morning, everyone. Thank you for joining us to discuss DENTSPLY International's third-quarter 2015 results. I'm joined by Bret Wise, DENTSPLY's Chairman and Chief Executive Officer; Chris Clark, our President and Chief Financial Officer; and Jim Mosch, our Executive Vice President and Chief Operating Officer.

I hope you had a chance to review our press release issued earlier this morning. A copy of the release and set of slides, and information relating to our non-GAAP financials are available for download in the investor relations section of our website, www.DENTSPLY.com, under the heading quarterly results. And, of course, the Safe Harbor language and US GAAP reconciliation contained in today's press release also pertain to this conference call.

We may make forward-looking statements involving risks and uncertainties. These should be considered in conjunction with the risk factors and uncertainties that are described in the release and in our SEC filings. It is possible that actual results may differ materially from the forward-looking statements that we make today. The Company undertakes no obligation to update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this call.

With that, I would now like to turn the call over to Brett Wise. Bret.

Bret Wise - *DENTSPLY International Inc. - Chairman and CEO*

Thank you, Derek. Good morning, everyone.

Thanks for joining us this morning on our third-quarter call. I'm going to give some brief overview comments on our results and our strategies. And then, turn the call over to Jim and Chris for more details on both the operating objectives and the financial results.

As an overview, DENTSPLY continues to execute well and consistent with our strategy in a global market that we view as stable with what we had seen earlier in the year. This market view is generally consistent across most of the geographies. Also, I would add that the third quarter is always the most difficult readthrough on trends, particularly, in Europe. For DENTSPLY, specifically, we've been executing on our strategy to first create a significant improvement in the efficiency of our global platform. And then, once the program gains momentum, to use a portion of those savings to accelerate growth investments.

As you've seen in recent quarters, and I think, will be evident again today, we've been very successful in significantly improving our margin profile. And, I think it's fair to say that we're well ahead of plan that we put forth to you early last year. In order to have us on the same baseline, you'll remember that in April 2014, or about 18 months ago, we announced the global efficiency program with an objective to increase our margin profile to 20% -- our operating margin profile to 20% by 2017. And, that would've been a 240 basis point improvement off of the 17.6% margin we reported in 2013.

The second objective of the program, and perhaps, the most important objective, was then to use a portion of the savings generated above this objective to reinvest in growth opportunities, while still meeting or exceeding the operating margin target. So, the operating margin target was a net target, net of the reinvestment. The results of the program are now very apparent. Using our first nine months of 2015, our adjusted operating margin is at 20.3%. It's now up 270 bases points from the 2013 baseline and has exceeded the interim target of 20% that we set for 2017. So, we've gotten there quite a bit earlier than we'd expected.

This quarter, like the second quarter, was very strong, with operating margins up 220 basis points, and adjusted earnings per share up 6.5 %. And, that's despite a very big headwind from currency on the top line, but also, on the adjusted EPS line. Actually, the headwind on currency on adjusted earnings per share was in the mid-6% range. So, on a constant currency basis, adjusted EPS -- the adjusted EPS improvement this quarter would be well into the double digits.

Two other important points on margins. Although, currency is a negative on the absolute amount of earnings or operating income, it is actually helpful in the percentage operating margin measure. So, it's important to note that about a third of the improvement this quarter in the operating margin percentage is from currency.

The second important point is, thus far in the program, we've been reinvesting a portion of the savings to facilitate the program itself. That being an investment in systems, consultants, et cetera. The need for these investments to facilitate the program will now diminish a bit, while the savings will be accelerating. At this point, we are somewhat of an inflection point in the program. Where additional funds will be available for growth investments. And, I've asked Jim to give you more on that in a moment in his comments.

This is an exciting time internally as we've been doing a lot of very hard work to get to this moment, when we can begin the growth investments in earnest. It's also important to note, that although we've designed the program implemented thus far to minimize the impact on commercial organizations and thus minimize the impact on sales growth, there certainly has been some negative impact. And, I can't really quantify that for you. But, I think it's important to note, that as we now turn to growth investments, we can help mitigate that impact and more. And, begin to reap the benefits, both on the top and bottom line as we enter 2016.

Returning to growth, internal growth in the quarter was a positive 1.7%. Regionally, it was up 1.6% in the US. Up 0.3% in Europe and 4% in rest of world.

I have just a few analytical comments to help you with that. On the global measure, the impact of discontinued products from our lab restructuring was about 50 basis points negative, while the US component of that impact of discontinued products was the largest, at 100 basis points. We said on an earlier calls, that we'll give you this impact. However, we are not adjusting the reported internal growth for the discontinued products or services at this point.

So, that headwind is in the reported numbers. In Europe, the reported number is a positive 0.3. This is negatively impacted by the discontinued products by about 25 to 30 basis points. And, CF -- CIS was also still negative. It was down -- it reduced the European number by about 30 basis points in the quarter.

In rest of world, we were pretty happy with the growth in the most of the countries. The one notable exception was the group of countries we call the Pacific Rim, which is included in rest of world, which was up mid-single digits on a reported basis in the quarter. However, this is well short of recent performance and the expectations we had going into the quarter.

The main reason for this was the temporary loss of our production facility and our distribution facility in Tianjin, China. Our facility is in very close proximity to the pour -- the port where the chemical explosion occurred back in August, and we did sustain substantial damage and our facility was unavailable for either manufacturing or logistics and shipping for five to six weeks in the quarter. We're back up with both production and shipping now. And, we expect this disruption to be temporary. However, it did have a meaningful negative impact on our rest of world growth in the quarter.

As we enter Q4, we have a pretty good pipeline of new products coming over the next several few quarters. And, Jim -- as Jim will note in a moment, we're now starting to implement our growth investments. Both of these, of course, should help accelerate our top line moving into next year.

Just one last comment. This change towards growth investments, for me, is really important. As, we're now at a point where we have the most flexibility to invest in growth, than really, any other time since the recession. This, of course, is due to the hard work and dedication of our more than 11,000 employees around the world. And, we're all very pleased that we can now move to the next phase of the initiative.

On guidance, we're once again increasing the earnings range for 2015 by bringing up the bottom end of the range by $0.04 and the top end of the range by $0.02. This brings us to a new range for adjusted EPS of $2.58 to $2.64 for the year.

On the operating margin target. Of course, we've already exceeded the goal we set back in early 2014. And, we'll be looking at that and we'll give you further guidance on the target on our year-end call. Needless to say, there's good upside to the target, and -- that we had set earlier in the course, now achieved.

Of course, our discussion this morning would not be complete without a few comments on the Sirona merger. As you know, we announced this -- a historic merger with Sirona, back in September. This is a very exciting event for both companies, but also for our markets. By bringing together the best in technology equipment and consumables, we believe that we can deliver more innovation and more value to our customers than either company could deliver on its own.

We are, of course, currently in the process of filing for regulatory approval and have pending shareholder approval for both companies. And, we expect the transaction to close in the first quarter of 2016. So, although we'll not say a lot more about the merger on this call, it's fair to say that we're very enthusiastic about the potential of this transaction and also the future we have together with Sirona and their employees.

So, that concludes my prepared remarks. I'd like to now turn the call over to Jim to speak to our operating initiatives. Jim.

Jim Mosch - *DENTSPLY International Inc. - EVP and COO*

Great. Thank you, Bret.

I would like to provide an operational update for Q3. And, also provide some further perspective on 2015 initiatives. I'll then turn it over, Chris, for the financial review.

In looking at our Q3 sales performance, our global consumables business grew mid-single digits, and we believe, above market with growth led by rest of world, solid growth in the US, and also positive in Europe. Our procedural selling programs and new product launches continue to support our consumable business globally.

Dental specialties grew low-single digits, with growth somewhat impacted by generally slow conditions in Europe, continued price competition in the orthodontics market, and contraction in CIS in the specialties. These factors were favorably offset by several new products in our endodontic business, ortho volume growth in the US, expansion of our liner business, and continued good performance with our EV implant system introduced last year.

Our lab business was down mid-single digits in the quarter. Which was heavily influenced by the impact of discontinued products. We have outlined previously, the global restructuring of our lab business. Which includes discontinuing certain commoditized lines, selling some product lines, and/or businesses, and also rightsizing the cost structure away from what had historically been a precious metal based market.

The restructuring will be substantially completed at the end of this year. However, there will be an impact through the middle of next year as we anniversary the discontinuation of several product lines. We have now initiated all major elements of the restructuring and are confident this will lead to improved commercial focus and profitability. Driven by a steamlined portfolio and transition to higher growth in more profitable laboratory materials.

As we move to Q4, we have several new product launches planned across our businesses. Our restoratives business launched Ceram. X Universal, in the month of September and has generated over 1,000 new users. This is a universal composite with natural aesthetics due to a unique sphere tech -- spherical filler technology. Ceram. X provides superior handling without compromising the long-term performance characteristics.

Also within our restoratives group, our Midwest division will launch the Midwest Tradition Plus. The original Tradition highspeed handpiece is one of the most recognized and utilized handpieces in the North American market. The new Tradition Plus incorporates superior features, improved reliability, and significant improvements in power with superior vibration and noise reduction.

Our preventive business will launch the Cavitron Touch Ultrasonic Scaling unit with SteriMate 360. This will be one of the most significant upgrades of our market leading Cavitron Ultrasonic Scaler in several years. The Cavitron Touch will be much small -- will be a much smaller footprint; incorporate a touchscreen interface, a lightweight petite cord, and superior swivel feature, enabling improved access and ergonomics for the clinician. We anticipate solid uptake of these products in Q4, but certainly, greater impact as these products are rolled out globally over the ensuing quarters.

In addition to the products noted here, we have several other product launches planned in the quarter and into 2016, which will be on display at the Greater New York Dental Meeting in November, and also the Chicago Midwinter Meeting in February. From an overall perspective, we see the pace of new product launches pick up substantially in 2016. We are excited about the pipeline of new products coming to market over the next couple quarters; certainly, more than normal product flow.

As Bret outlined, we continued to make good progress against our 20% operating margin goal. And, in some aspects, we are ahead of schedule. At this point, we would like to provide more detail on our reinvestment initiatives to support long-term growth. As identified as part of the global efficiency program. As indicated previously, within our manufacturing segments, we will focus on global product platforms by clinical discipline.

An important element of this is to translate global portfolio strategies to commercial execution through the regional commercial organizations. Structurally, this requires the addition of in-market expertise by each global portfolio. We are making investments under which each business discipline will have dedicated resources located in the respective geographic markets to support technical, market, and competitive development. And, we anticipate staffing more than 50 individuals to support this requirement by the end of Q1 2016.

We have also highlighted our commitment to sales excellence, which is training and develop, as well as sales force expansion. We continuously review our sales force alignment and deployment. And, we have concluded to add sales representatives across multiple businesses and geographic regions. We are beginning this activity now and we'll have some personnel in place by year end, although the majority of these positions will be filled by Q1.

In an effort to support sales expansion and effectiveness, our -- in our sales force globally, we have launched a global sales excellence program, which will seek to standardize and expand our sales training development efforts on a global basis. A complementary strategy to this is to expand clinical education, which is also underway, with several innovation approaches to design and deployment. This investment will be based on clinically relevant training and education with a particular emphasis on procedural consistency and enhanced performance.

Finally, as we noted previously, we are moving to independent businesses in country to fully integrated DENTSPLY country organizations. Which will result in five countries going live by January 1, 2016. While it is early in the process, we are seeing leverage of critical mass, and the collaboration of a single country management team that we believe will accelerate common customer strategies, and commercial success, as the country organizations develop.

So, at present, it's safe to say there's a lot of activity at DENTSPLY. It is both satisfying and exciting that we are now at an inflection point in our efficiency program, as almost an exclusively cost-driven focus now becomes more balanced as we turn to investment and growth initiatives. We look forward to updating you on our progress as we move forward.

At this point, I'd like to turn it over to Chris Clark for the financial review.

Chris Clark - *DENTSPLY International Inc. - President and CFO*

Thank you, Jim, and good morning, everyone.

I'd like to provide some detail on our third-quarter results by reviewing key elements of our income statement, balance sheet, and cash flow statement. And also, provide some additional color on our margin improvement initiative.

For the third quarter, sales, excluding precious metals, declined 7.7% compared to prior year. As internal growth of 1.7% was more than offset by negative currency translation of 9.1%. Net acquisition growth was negative 0.3% in the quarter. That's primarily reflecting the impact of several small divestures of non-core product lines that more than offset the impact of from acquisitions. Also, as Bret mentioned, impact of discontinued products reduced the quarter's internal growth rate by about -- by approximately 50 basis points.

We continued our strong -- very strong operating margin performance in the third quarter. As our operating margin rate of 20.9% of sales, excluding precious metals, on an adjusted basis, improved by 220 basis points, over 18.7% in the prior year quarter. This represents the accelerating impact of our global efficiency improvement initiative. Which I will provide more perspective on in a moment.

For the first three quarters of 2015, our adjusted operating margin rate of 20.3% represents a 170 basis point improvement over the same period in 2014. Approximately one third of the operating margin improvement this quarter was a result of currency, which continues to be a headwind to our sales and earnings, but, is a tailwind currently to our operating margin rate.

Currency will become a headwind to our operating margin rate in 2016 if rates remain similar to today, but, will be more than offset by savings from the efficiency program. So, at this point, we would expect margin expansion next year, despite this. And, we'll update you more when we report our year-end results.

Gross profit on an adjusted basis in the third quarter was 60.1% of sales, excluding precious metals, and, that's an improvement of 240 basis points over prior year. SG&A expenses, on a adjusted basis, were 39.2% of sales, excluding precious metals. And, that's up 10 basis points compared to the third quarter of 2014. We are seeing benefits from the global efficiency program in both our cost of goods sold and also in OpEx. With a disproportionate amount of the enabling investments also going through the OpEx line at this point in time.

As I mentioned, we continue to be very pleased with the progress of our global efficiency program as the P&L impact from our aggregate efforts continues to accelerate. Our initiatives driving these impacts represent significant changes to our structure, and to our operational approach, and they allow us to better leverage our underlying asset and expense bases. We continue to move forward with the implementation of the restructuring of our lab business that we discussed on last quarter's call.

And, we're pleased with the sequential improvement and operational results associated with our actions, as well as the forward-looking orientation of that business now that we've moved from planning into implementation. Of course, as mentioned, this is creating a drag on our top line due to the discontinued products. But, the operational leverage gained is significant and is on plan. The savings from this effort will continue to build over the next several quarters, as will the drag on internal growth.

In addition, in the third quarter, we closed one additional manufacturing location and announced the intended closure of a second. And, this is consistent with our objective of divesting or discontinuing less profitable or non-core product lines. While also driving increased utilization of a smaller number of manufacturing facilities. Our global procurement initiative also continues to move -- gain momentum. Allowing us to realize the benefits of leveraging the buying power of a $2.8 billion company, as opposed to smaller decentralized business units.

As Jim indicated, we have also largely implemented our global SVU structure, providing increased strategic and operational consistency, while also realizing synergies associated with running our verticals on a global, rather than a regional, basis. We're also moving forward with our country operating model in a number of geographies, and that allows us to maintain the benefits of our SVU-specific sales focus, while also realizing the strategic and cost benefits of utilizing common country support structures. In addition to driving operating efficiencies, we believe this will significantly increase the level of collaboration across our businesses. And thereby, increase the value we can provide common customers.

Finally, we're moving forward with the consolidation of back office functions, including shared services supporting transactional accounting, and also the initial phases of our logistics consolidation initiative. The impact of these strategic initiatives on our P&L in aggregate, is accelerating, and is a key driver of the strong operating margin performance we've been discussing. In addition, this provides us the confidence to now increasingly pivot our focus to also include reinvestments in growth, as Jim discussed.

Our reported tax rate for the third quarter was 21.1%. And, our operating tax rate for the quarter was 22.7%. That's down 10 basis points compared to the third-quarter rate of last year. For the first three quarters of the year, we continued to see a slight headwind in the tax rate of approximately 20 basis points, as a result of unfavorable geographic earnings mix compared to prior year.

Net income attributable to DENTSPLY International, on an as-reported basis in the third quarter was $84.6 million, or $0.59 per diluted share, and that compares to $75.3 million, or $0.52 per diluted share in third quarter 2014. These results include a number of items which we've listed in the schedules in the release. On an adjusted basis, net earnings were $93.5 million in the quarter, compared to $89.3 million in the prior year quarter. And, adjusted diluted EPS improves -- improved by 6.5% to $0.66 from last year's third-quarter performance of $0.62.

Currency represented a headwind to earnings in the quarter of approximately 6.5%. And, the full-year impact from currency, based on current rates, is estimated to be approximately $0.15 per share, which is about a penny per share worse than what our assumption was that was embedded in our initial guidance in the year.

Moving on to cash flow, our operating cash flow for the quarter was $159.7 million. That's an 8% increase over last year's third quarter of $145.7 million. This represents a record third-quarter cash flow performance. And, year to date, our cash from operations now stands at $371 million. And, that's also a record for the first nine months of the year.

Our free cash flow yield, which is calculated by taking operating cash flow less CapEx divided by market cap, was 6.9% at the end of the third quarter. Cash flow conversion continues to be excellent, as our third-quarter free cash flow of $141.4 million represented 151% of our adjusted net income for the period. Inventories finished at 115 days in September. That's down four days from prior year.

Accounts receivable were at 100 -- I'm sorry, were at 60 days in September. That's also down two days from prior year. And, payable days improved by seven days compared to prior year. So overall, we're pleased with the status of our initiatives to improve working capital performance.

Our overall operating results, combined with our improved asset turns, have driven solid results -- solid improvements in our return on invested capital performance. Capital expenditures were $18 million in the quarter, while depreciation was $23 million, and amortization was $11 million.

During the quarter, we repurchased approximately 240,000 shares at an average cost of $56.12 per share. The first nine months of 2015, we've repurchased 2.1 million shares. Our leverage ratio, defined as net debt over trailing 12-month EBITDA, stood at 1.5 times at the end of September. We continue to see capital deployment as a driver of shareholder value through acquisitions and share buybacks, supported by our strong balance sheet and cash flow generation.

I'd like to provide a brief update on the timing of certain filings that we expect to complete in the coming days. In light of the upcoming merger with Sirona, and related capital market activities, we will be filing a revision to some historical financials to conform to the segment reporting that we initiated in March of this year. As such, you will soon see a revision in the Form 10-K that will be filed shortly. In addition, we also anticipate to be filing the S-4 Proxy Statement and our Form 10-Q for the third quarter shortly thereafter.

Finally, as Bret indicated, based on our continued strong earnings performance, we are raising our 2015 earnings per share guidance to $2.58 to $2.64 on an adjusted basis. This reflects the strong momentum from our global efficiency program, the costs associated with the growth in investments that Jim mentioned. And also, a continued currency headwind of approximately $0.04 in the fourth quarter, based on current rates.

That completes our prepared remarks. We appreciate your support. And, now we'd be glad to take any questions that you might have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

John Kreger, William Blair.

Ravi Fadah - *William Blair & Company - Analyst*

Hello, good morning, guys. It's actually Ravi Fadah in for John today. Thanks for taking the questions. Just starting on the market stuff. Thanks for the detail on some of the one-time items that impacted growth in the quarter.

But, even adjusting for those, it seemed like there was a little bit of a deterioration in internal growth. Can you help us understand that? Are you seeing any pockets of weakness? Or, any particular areas where things seem to be slowing?

Bret Wise - *DENTSPLY International Inc. - Chairman and CEO*

Ravi, I'll take a shot at that. I think we, kind of, prefaced our comments by the third quarter's. Probably, the -- if -- the most difficult to evaluate trends in because we have extended vacation periods, particularly in Europe. And then, also the US can be affected by that as well. I think if you adjust for the discontinued products, the US probably is a little bit light this quarter.

We didn't see -- we don't recognize -- we don't see some overlying trend that caused that. It's just, a few of our business were weaker, a bit little weaker, than they thought -- we thought they would be. We think that's probably timing. Europe was only up slightly in the quarter. Of course, it was depressed by the CIS. Although, that's diminishing.

In Southern Europe, we saw continued growth. In Northern Europe, it was more flattish. But, that's where the impact from the discontinued products is hitting. Though, I don't think there's any material change in trends there.

And, in the rest of world category, we were in pretty good shape. Except for this disruption we had in China because of the plant. The explosion of the plant -- at the port. Our plant didn't explode. (laughter)

But, we did lose access to that plant and where the plant was damaged. So, those -- that factors would affect the rest of world. So, I don't really -- I wouldn't -- I don't read into -- a lot into the trends that we saw. I think the markets are stable. And, we're looking, now, to reinvest in certain markets where we see good growth potential.

Ravi Fadah - *William Blair & Company - Analyst*

Great. And on that point. It sounds like there were a couple of things that you mentioned in terms of new product introductions stepping up next year; repetitions increasing in Q4 and Q1. Can you give us any more detail on that?

Maybe, just contextualize. How many more new products are expected? How many reps do you expect to add? And then, maybe, when you expect to see some of these reinvestments in growth to show up on the top line? Will it be more a 2016 event or more a 2017? Thanks.

Bret Wise - *DENTSPLY International Inc. - Chairman and CEO*

Okay, I'm going to take a stab at a couple of those questions and then ask Jim to address the new products. We gave you some insights on the number of technical people we're putting into the markets as part of the reinvestment. Jim did, this morning.

With respect to the rep expansion. We're going to withhold that for now because that's competitively sensitive. But, it's a meaningful addition that will be going in between now and the end of the first quarter.

I don't think it'll have any real effect in the fourth quarter. Meaning, we got to -- we have to hire these people. Onboard them; get them trained to get them out in the field. So, I think it's the more of a 2016 impact at this point not a 2015 impact.

Jim, you have some insights on the new product question he raised?

Jim Mosch - *DENTSPLY International Inc. - EVP and COO*

Yes, absolutely, Ravi. From a standpoint, obviously, what we outlined is, we have a couple key launches that are happening in Q4 of this year. I mentioned the Midwest handpiece and also the new Cavitron. These are equipment products. They have a higher ticket price than our general consumables. And, it's always favorable to have those launching at the end of the year. And, we expect some good performance from those.

Obviously, those products will carry going forward. In addition, as we look at next year. I think, typically, ideally, you'd like to have the situation where you have this constant consistent stream of new products. The reality is, is that there is somewhat of a -- an ebb and flow to that process. And really, what we're seeing right now, is we're seeing a pretty large wave of products that will be coming out in the first quarter. And, I can say that those are pretty much across all of our segments.

We have a couple notable additions in our healthcare business. Also, within -- with our -- within our preventive business as well. So, I believe that what you're going to see, in really the first half of next year, is pretty consistent new product additions across all segments.

Ravi Fadah - *William Blair & Company - Analyst*

Great. Thanks very much, guys.

Bret Wise - *DENTSPLY International Inc. - Chairman and CEO*

Thank you.

Operator

Jeff Johnson, Robert Baird.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

Thanks, guys. Good morning. Can you hear me okay?

Bret Wise - *DENTSPLY International Inc. - Chairman and CEO*

Yes, good morning, Jeff.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

Great.

Jim Mosch - *DENTSPLY International Inc. - EVP and COO*

Morning, Jeff.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

So, Bret, let me just start with you on the top line. Kind of, going back to Ravi's question. If we do the math and adjust for the China port issue and the lab divestitures. Maybe organic growth, 2.5%, a little North of that, potentially. Probably a little bit below market at this point. Although, we'll see when some of the others report here, if that's true or not.

As we think about these investments and the new product flow Jim was just talking about. Are those investments, as we get into 2016, you think, to drive the growth rate back up to market? Or, nicely above market? Just, how do we, kind of, judge that? And, how should we, kind of, scorecard you guys on that over the next few quarters?

Bret Wise - *DENTSPLY International Inc. - Chairman and CEO*

Okay, I'll take a shot at that, Jeff. At this point, the only data point we have is one of the manufacturers that's reported. And, that sounded like their growth -- organic growth, was about like ours for consumables. So, I don't -- we'll know more, of course, when we have the two major dealers report. We get a couple of the other industry participants reporting. But, I would guess we're close to market, absent the things that were specific to us. Like the discontinued products and the plant -- loss of the plant in China.

The new investments. One thing that I commented on in my prepared remarks was, we've kind -- we've been, kind of, fighting this fight since the recession. Meaning, there hasn't been robust organic growth. Which means, there's not excess earnings to put into growth initiatives. And, you might remember, when we started this initiative, the efficiency initiative, one of the major themes was to get our fixed costs down to give us flexibility to put in money into growth initiatives.

And, we're at that point now. More so, than any other point in this period since the recession. So, I'm more optimistic now than I have been for probably five or six years. That, as we get this excess earnings and the ability to reinvest, we'll drive our organic growth above market.

I don't want to concede that we're below market now. I'm not sure we are. I think that what we -- the one data point we've seen thus far says we're at about market right now. But, I think that the key is some variable spending that will allow us to push that higher. And, I think that's what you're going to start to see as we move into 2016.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

All right. That's helpful. Thank you. And then, Chris, maybe, just a couple quick P&L clarifying questions. One is, as we think about the FX headwinds to margin rate, or margin percentage, next year. I know you don't want to give 2016 guidance.

But, can you talk just about, kind of, are those going to be -- should we be thinking about 30 to 50 basis points of headwind from the margin? Or, from the hedge issues? Or, how should we think about the quantification of that?

Chris Clark - *DENTSPLY International Inc. - President and CFO*

Yes, as you look, obviously, the rates are moving around a lot. So, it's going to be pretty variable. We'll give you a more formal update when we provide the guidance on the next call. At current rates, it'd be on the North -- it'd be, so, it'd be at the higher end of that range that you indicated. And, again --

---

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

Okay.

Chris Clark - *DENTSPLY International Inc. - President and CFO*

That's -- it's a -- at this point in time, that's based on today's rates and these are highly volatile. (laughter)

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

Yes. Understood. And then, my last two. Just, I want to make sure the equity and affiliates line, the $10.8 million. I think all that was excluded. That's probably a DO adjustment.

I think all that was excluded in the non-GAAP EPS. Just want to confirm that. And then, what drove the interest in other line down about $7 million year over year? And, how did that impact or play into EPS?

Bret Wise - *DENTSPLY International Inc. - Chairman and CEO*

Yes, there's a couple things going on there. You're right. The vast majority, of the unaffiliated eq -- of the affiliated equity did pull out in the context of non-GAAP adjustments. The effect really relates to a transaction relative to DO where we redeemed the convertible bonds. We still are a minority shareholder.

But, the bonds were on the touring and we made the -- that's such a huge decision, that it was not in our best interest at this stage to go ahead and redeem those at this point in time. Based on that, there's some market-to-market elements that flow through, both, that line as well as the interest in other. So, those are the bulk of the adjustments.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

And, those are pulled out?

Bret Wise - *DENTSPLY International Inc. - Chairman and CEO*

Those are removed from non-GAAP results, correct.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

All right. Great. Thank you.

Bret Wise - *DENTSPLY International Inc. - Chairman and CEO*

You bet.

Operator

Erin Wilson, Bank of America Merrill Lynch.

Erin Wilson - *BofA Merrill Lynch - Analyst*

Great. Thanks. Can you elaborate on what you're seeing regionally across the implant business? Have you been seeing any sort of meaningful changes in pricing or competitive dynamics, just in light of the consolidation? Or, actually, has the disruption or integration processes actually helped you? And, how do you envision that market, kind of, evolving over the near and longer term?

Bret Wise - *DENTSPLY International Inc. - Chairman and CEO*

Okay, I'll take -- oh, Jim, you want to take a stab at it?

Jim Mosch - *DENTSPLY International Inc. - EVP and COO*

Yes, absolutely. Erin, I think, from the standpoint of the implant market. I think we would say that it's been fairly stable over the last couple quarters. We -- obviously, we haven't seen a lot of reporting from the other implant players. So, it's a little bit difficult to engage -- to gauge their results. But, overall, like I said, we would say that the market has been fairly stable.

Obviously, the US is probably stronger versus Europe. Europe has been a little bit of a mixed bag, but, really hasn't changed over the last couple quarters. From the standpoint of the market overall, I mean, I think we would expect it to continue at its current pace. It might improve slightly next year. Competitive factors, as far as pricing average, sell prices, some pressure on average sell prices, but not significant.

Bret Wise - *DENTSPLY International Inc. - Chairman and CEO*

Yes, and the thing I'd add to that is that our new system continues to get good uptake and it's a premium system. It's a -- so, we're getting good conversions from that new system at the price point that we got at market of that. So, that's a favorable data point, I think.

Erin Wilson - *BofA Merrill Lynch - Analyst*

Okay. Great. And, you've briefly touched on this. But, can you speak to just the broader underlying demand trends in the US? And, how we should think about the quarterly progression here?

Bret Wise - *DENTSPLY International Inc. - Chairman and CEO*

Well, it's consistent, Erin, I'd say it's consistent with what I said before. In the US, August isn't a real great month to gauge. I would say the quarter probably started a little bit stronger than it finished. But, we're talking a few basis points here.

I don't think it's something that I would read any material trend into. We're still getting good interest in new products that we bring to market. Our reps, I think, are doing a good job of maximizing those. So, I think the trends are stable, As we said in our prepared remarks, in the US.

Erin Wilson - *BofA Merrill Lynch - Analyst*

Okay. And, just one quick one. What's embedded in your expectations as far it relates to the discontinued products in the fourth quarter?

Bret Wise - *DENTSPLY International Inc. - Chairman and CEO*

The fourth quarter, I think, as Chris mentioned, in fact, you --

---

Chris Clark - *DENTSPLY International Inc. - President and CFO*

Yes, I'll cover it. I mean, it's accelerating. So, as we look at, we've got -- again, we obviously don't provide internal growth guidance on it. On a -- basically. But, included in the -- our expectations for the quarter, is an increasing headwind from internal; from the discontinued products.

Bret Wise - *DENTSPLY International Inc. - Chairman and CEO*

Yes. So, that'll be a little bit heavier in Q4 and Q1.

Chris Clark - *DENTSPLY International Inc. - President and CFO*

Correct.

Bret Wise - *DENTSPLY International Inc. - Chairman and CEO*

And then, by mid-year next year, it'll start to abate.

Chris Clark - *DENTSPLY International Inc. - President and CFO*

Because it'll begin to come back down.

Erin Wilson - *BofA Merrill Lynch - Analyst*

Okay. Great. Thank you.

Operator

Steve Beuchaw, Morgan Stanley.

Steve Beuchaw - *Morgan Stanley - Analyst*

Hello. Good morning, guys. Thanks for taking the questions.

Bret Wise - *DENTSPLY International Inc. - Chairman and CEO*

Good morning, Steve.

Chris Clark - *DENTSPLY International Inc. - President and CFO*

Hello, Steve.

Steve Beuchaw - *Morgan Stanley - Analyst*

Just one for Bret. Bret, I'd like to open the floor up and give you a chance to talk about what it is you're seeing in your dialogue over the last several weeks with investors as it relates to the Sirona transaction. Where do you feel like you've wanted to invest or needed to invest the most time to help people understand the merits of the deal, the parameters of the deal, just to help people get comfortable as they think about the story?

Bret Wise - *DENTSPLY International Inc. - Chairman and CEO*

Steve, I -- we're in the regulatory approval process right now and the process of filing for antitrust approval and also shareholder approval. I think on this point, we've got to stick to the script that we had at the time we did the announcement. The two companies are still operating independently of each other at this point.

And so, I think I'd refer you back to the slide deck that we have from the announcement in mid-September. I don't think we can go any further of that, than that, on this call this morning.

Steve Beuchaw - *Morgan Stanley - Analyst*

Okay. Well, I had to try. Then, I'll ask just two quick clarification questions. One, on trends in the quarter. Setting aside the impact of discontinued operations. Did you see anything in the channel, as it relates to inventory in the distribution channel, that might have been impactful on the results in the quarter?

Bret Wise - *DENTSPLY International Inc. - Chairman and CEO*

I'm going to start this. And, Chris, if you have something to add. No, I mean, I think that the -- we had a price increase October 1. Which, we do annually at -- on October 1. And, we saw, kind of, the same activity from the channel that we normally do. So, no, I don't think I saw any material difference.

Chris Clark - *DENTSPLY International Inc. - President and CFO*

No, Steve, I guess I'd add I think our price increase was pretty similar to the rate it's been in prior years. Generally, in that 1 point to 1.5 point- range. I think the behavior of our distributors was very similar to what it's been. There's some businesses that might have been a little longer or shorter in the context of the pre-buy. But, those tend to average out. And, so, I'd say, overall, pretty similar impact to what we've seen in the past.

Steve Beuchaw - *Morgan Stanley - Analyst*

Okay. And then, last one for me actually relates back to Tianjin. You mentioned in the prepared remarks that it was offline for five to six weeks. And, I believe, you mentioned that was in August.

Have we seen any of that impact recapture? And, do you have a rough sense for the magnitude of the impact in the quarter? Sorry if I missed that in the prepared remarks. Thanks.

Bret Wise - *DENTSPLY International Inc. - Chairman and CEO*

I don't think we quantified that in the prepared remarks. I'm going to start this, and then, Chris, if you want to quantify, you can.

The plant got back up and running and also we got availability of the inventory that was in the facility in late September. So, we lost a good five weeks, maybe even six weeks. But, it occurred -- the explosion was, kind of, in early August. And, by the time we exited the quarter, we had full access to the facility again.

I just want to make clear that, in a country like China where we import product into, and we hold it in a logistics point, we don't have the flexibility to do a rush of new products into the country. Because, they got to clear the port. So, the fact that we lost access, not only to the manufacturing, but, to the inventory to ship, is what caused this disruption.

Chris Clark - *DENTSPLY International Inc. - President and CFO*

Yes, I think that the -- roughly, the difference in trajectory on that business alone had about a 60 basis point impact, approximately, on the total internal growth number. And, about 300 basis points on the rest of world. So, again, it's hard to tell. But, if we look at difference in trends, that was the -- that's the impact.

Steve Beuchaw - *Morgan Stanley - Analyst*

Guys, thanks again. Have a great morning.

Bret Wise - *DENTSPLY International Inc. - Chairman and CEO*

Thank you.

Chris Clark - *DENTSPLY International Inc. - President and CFO*

Thank you.

Operator

David Stratton, Great Lakes Review.

David Stratton - *Great Lakes Review - Analyst*

Good morning. I just have a housekeeping question regarding the current liabilities that jumped about 40%. And, I'm just -- want to make sure that that is all attributable to the long-term debt drop being transitioned into current portion of long-term debt. Thank you.

Chris Clark - *DENTSPLY International Inc. - President and CFO*

That's exactly right.

Bret Wise - *DENTSPLY International Inc. - Chairman and CEO*

Yes. You got it.

David Stratton - *Great Lakes Review - Analyst*

All right. Thanks.

Bret Wise - *DENTSPLY International Inc. - Chairman and CEO*

You bet.

Chris Clark - *DENTSPLY International Inc. - President and CFO*

I would add that those liabilities will likely be refinanced.

Bret Wise - *DENTSPLY International Inc. - Chairman and CEO*

Yes, correct. I mean, our intentions are to refinance these in the near term. But, they did move in the quarter from long-term to current.

Operator

(Operator Instructions)

Brandon Couillard, Jefferies.

Brandon Couillard - *Jefferies LLC - Analyst*

Thanks. Good morning.

Bret Wise - *DENTSPLY International Inc. - Chairman and CEO*

Morning.

Chris Clark - *DENTSPLY International Inc. - President and CFO*

Morning, Brandon.

Brandon Couillard - *Jefferies LLC - Analyst*

Chris, on the working capital front, you made the considerable progress bringing down inventories. Should we expect that trend to level out as you, sort of, build stocks for the new product launches coming up over the next, say, 6 to 12 months? And then, could you give us a revised view on CapEx for the year?

Chris Clark - *DENTSPLY International Inc. - President and CFO*

Yes, on the inventory. Obviously, we don't provide guidance on a quarterly basis. But, I guess, I would say over a period of time we've brought it down gradually. I would have the expectation that it continues to come down gradually.

We may have an individual quarter where it may stay stable or come up a little bit based on either transitional items, transitional initiatives we have, in the near term, relative to the margin improvement initiative. Or, quite frankly, new products, as you mentioned. But, I guess I'd take a longer term, or moderate, intermediate term view on it, Brandon. Say that, I would expect to -- we've got considerable room to continue to bring this thing down.

Relative to CapEx. I'm -- at this point in time, in our CapEx expenditures, are relatively modest based on historical trends so far. I think that is an area, again, relative to our asset turns that we're focusing on. And, I guess, I would say for the year, I would anticipate it being in the $65 million to $80 million range for the year.

Brandon Couillard - *Jefferies LLC - Analyst*

Super. Thank you.

Bret Wise - *DENTSPLY International Inc. - Chairman and CEO*

You bet.

Operator

There are no further questions in queue at this time. I'd like to turn it back to our speakers for any additional or closing remarks.

Bret Wise - *DENTSPLY International Inc. - Chairman and CEO*

Well, thank you very much for your interest in DENTSPLY. That concludes our conference call. I'll be around today for follow up. Thank you.

Operator

That concludes today's conference. We thank you for your participations.
