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EDITED TRANSCRIPT

XRAY - Q1 2014 Dentsply International Inc Earnings Conference Call

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OVERVIEW:

Co.'s as-reported net income attributable to Co. was $72.9m or $0.50 per diluted share. 1Q14 adjusted net earnings was $85.5m and adjusted diluted EPS was $0.59. For 2014, expects adjusted diluted EPS to be $2.47-2.55.

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PRESENTATION

Operator

Good day and welcome to the DENTSPLY International first-quarter 2014 earnings call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Derek Leckow, Vice President of Investor Relations. Please go ahead, sir.

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

Thank you, Lisa, and good morning, everyone. Thank you for joining us to discuss DENTSPLY International's first quarter 2014 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. I'd point out that a copy of the release and a set of supplemental slides relating to any non-GAAP financials are also available for download on the Investor Relations section of our website at www.DENTSPLY.com under the heading Events and Presentations.

I'd like to remind everyone that the Safe Harbor language and US GAAP reconciliation contained in today's press release also pertains 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. A recording of this call in its entirety will be available on our website.

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

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

Thank you, Derek. Good morning, everyone. Thanks again for joining us on our first-quarter call. I have some brief comments on our results and also some areas of focus for the Company going forward. Then I'll turn the call over to Jim and Chris to elaborate further on those points.

Starting with the headline here, we had a pretty good start to the year with adjusted EPS growth of 13.5% for the quarter, despite what has proven to be a pretty slow growth market environment. At a high level, this was driven by operating margin expansion, which we've talked about many times on these calls over the last year or so, and this continues to be a high priority for the Company going forward. And of course, we'll speak more to that today.

Overall, sales for the quarter were up 2.5%, excluding precious metals. The 2.5% reflects 1.1% internal growth, and 0.8% from acquisitions to give us growth in local currencies of 1.9% and then the balance is currency translation.

Internal growth in the US was essentially flat, at a positive 0.1%, which we think reflects market conditions, and I'll elaborate more on that in a moment. Europe was negative 1.3%, greatly influenced by conditions in Russia and the Ukraine and rest of world was positive 8.9%.

So in the US, the quarter started out very slow, both for us and for the market. In fact, it was negative through February. This was driven entirely by the Eastern regions, states east of the Mississippi, which were very negative the first two months of the year, whereby the regions west of the Mississippi were positive and, quote, normal. The market did recover a little bit in March, and we believe that's more indicative of, quote, normal conditions for the US, and we'd like to see that continue going forward.

The markets in Europe saw some acceleration, which is encouraging. We saw some acceleration in the Western part of Europe, or the historical part of Europe, and that was offset by a very large, very significant drop-off in Russia and the Ukraine during the quarter.

Kind of peeling the onion back here, the fact is that this is one of the stronger quarters we've seen for some time in Western Europe, which was up low single digits. And Germany, in particular, was strong across most of or essentially all of our product lines, so very broad acceleration in Germany and Western Europe in the quarter, offset by some very negative results in Russia and the Ukraine.

In rest of world, we had strong growth in Pacific Rim, Canada, Japan, Middle East, and Australia, in other words, many, many countries that are included in that rest of world category for us. Japan is likely due in part to the increase in VAT that went effective April 1; we saw some buying ahead of that in the March timeframe, but even without Japan, we had strong mid-single digit growth in the rest of world region. Overall, it was a bit of a slow start on the top line due to the reasons I noted here, but I'd say also some encouraging signs, particularly in Western Europe.

On a global product category basis, dental consumables, dental specialities were both up low single digits. Healthcare was positive mid-single digits, and lab was down low single digits. Profitability was strong, with the adjusted operating margins up 150 basis points, and as I mentioned, adjusted earnings per share were up 13.5%.

This quarter was against a flat comp last year. I think it's important to note it was a relatively easier comp in the first quarter than the hurdle that we'll see for the remainder of the year.

I'd say these results reflect and they're part of an ongoing strategy to grow earnings through better leveraging our portfolio of companies and our cost structure, even in differing economic environments. So the strategy is to put the Company in a position where we can grow operating margins and have some reinvestment in growth initiatives, even in a slow growth environment.

The same structure and same strategy should then provide for accelerated earnings growth when markets are more robust. Some of these strategies relate to synergies from recent acquisitions, which we've talked about many times on these calls, but also from improving the leverage of our cost structure in the historical DENTSPLY businesses, including a keen focus on capacity utilization and overhead absorption.

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During the first quarter, we did complete some plant consolidations, and we have some planned for later in the year, which are already announced, and Jim will comment more on those in a moment. Also, in this quarter, we kicked off a global procurement initiative, which will be implemented over the next two to three years.

The Company has historically operated on a very decentralized basis for procurement; we're looking to bring some of that, roll some of that up to give us much more purchasing power and we think that will generate benefits going forward. We do expect that there will be some near-term costs for this effort over the next few quarters. However, we see that we should be able to generate benefits sufficient to offset these costs by the time we exit the year.

Based on the opportunities we see to better leverage our cost structure over the next few years and then free up cash for reinvestment in growth initiatives, we're establishing a new operating margin target this morning of 20% to be attained in three years. In addition, we see a path for much better asset turnover and utilization, which when combined with the operating margin improvement, will also improve our ROIC performance back to historical levels.

To sum up, we're pleased with our double-digit earnings growth for the start of the year. Looking at our current guidance, we're a bit ahead at this point; however, we do know we'll have some incremental costs in the next one to two quarters for the points that I've noted, and then, should realize some savings to offset that later in the year. So although it's early and market conditions remain uncertain at this point, we feel comfortable now adjusting the full-year guidance to a range of $2.47 to $2.55 per adjusted diluted share for the full year.

I'd like to now turn the call over to Jim for an update on some operational topics. Jim?

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

Thank you, Bret. I'd like to provide a brief perspective on a few operational items, and then turn it over to Chris for the financial review.

As Bret mentioned, we experienced unusually slow growth in the US in the first quarter, concentrated in the Eastern half of the country. We were negative through February, but saw conditions return to more normal trends in March.

Turning to implants, we saw solid recovery in our German implant business, albeit to a lower comparison, driven by the German integration the prior year, yet we are seeing stability and sold improvement. Key to our implant performance in the quarter and for this year is the launch of a new implant system, ASTRA TECH EV. ASTRA TECH EV was launched to several markets in Q1, but with primary focus on North America. The EV system builds upon a deep portfolio of technology and clinical documentation and specifically addresses clinical elements that take this system to a new level in terms of simplicity and flexibility.

EV has a new drilling protocol, which reduces clinical procedure time, a flexible and clinically oriented surgical tray, improved initial stability upon implant placement, and with respect to the restorative procedure, a simplified abutment placement process that ties seamlessly into our market-leading ATLANTIS customized abutment platform. Initial feedback from the US market has been excellent, and customer adoption is higher than anticipated.

In Q2 and Q3, we will be executing the global launch of EV and concurrently managing the transition to the new system. While sales are initially driven by current customer conversions, we have been pleased with our ability to convert competitive platforms.

Other new product launches during Q1 included ProTaper Gold, which is an improvement to our market leading ProTaper endodontic file system. ProTaper Gold offers superior flexibility, fatigue resistance, and clinical utility. In addition, we continue to get traction from products launched in 2013, such as Aquasil Ultra Cordless, TPH Spectra, Midwest Automate, the Origo male catheter, and two new varnish products, all launched in 2013.

Operationally, we have been pursuing several initiatives to improve operating performance. We completed one plant consolidation in Q1, and announced another that will be completed at the end of Q2. This is consistent with our strategy to improve capacity utilization and return on our invested capital.

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In part, as a synergy from recent acquisitions, and in part, from leveraging our broader platform of assets, including the historical DENTSPLY businesses. As part of these efforts, we are also looking for better working capital utilization, although it typically requires an investment going into theses activities.

Overall, despite some slow growth this quarter, we are pleased with our ability to better manage -- leverage our portfolio and expand margins.

I'd now like to turn it over to Chris Clark to review the financial results.

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

Thank you, Jim, and good morning, everyone. I'd like to provide some detail on our financial performance for the first quarter and also discuss our 2014 earnings and capital allocation outlook, and finally, some additional perspective on the initiatives that Bret mentioned in his remarks.

For the first quarter, sales, excluding precious metals, grew 2.5% compared to prior year, including 110 basis points of internal growth, 80-basis-point benefit from recent acquisition, and favorable currency translation of 60 basis points. Gross profit rate on an adjusted basis in the fourth quarter was 57.8% of sales, excluding precious metals, which was a decline of approximately 40 basis points from 58.2% in the first quarter of 2013.

This reflects the aggregate negative currency transaction impact as a result of the decline in rates of the emerging market and non-European developed market currencies that I spoke about on the last earnings call. And this basket of currencies is now down 10% versus the US dollar compared to a year ago, which in the gross profit rate line really more than offset a net positive price impact in the quarter.

SG&A expenses declined 2.3% on an adjusted basis, and as a percentage of sales, excluding precious metals, they improved by 200 basis points to 40.1% compared to 42.1% in the first quarter of 2013. This reflects the impact of synergies from restructuring and efficiency initiatives that we implemented last year, as well as lower spending on trade shows, notably, the biannual IDS show.

Operating margin for the quarter improved by 150 basis points to 17.7% of sales, excluding precious metals, on an adjusted basis, compared to 16.2% in the first quarter last year, reflecting the better leverage and the overall SG&A savings that I just described. Importantly, on a rolling four-quarter basis, adjusted operating margin has improved by 70 basis points from the previous four quarters, which is well in excess of our long-term objective of 20 to 40 basis points annually, and this is coming despite the challenging global market environment, as well as sizable headwinds from currency and medical device tax over much of that period. This is consistent with the comments we've made previously and that Bret reinforced this morning, that a key operational objective has been to improve our operating platform to allow for margin expansion even in slower growth environments.

Currency represented a headwind to earnings in the quarter of approximately $0.02 per share, due largely due to the negative impacts from the currencies in Canada, Russia, Australia, Latin America, and the Asia-Pacific region, relative to the strengthening of the euro and the Swiss franc versus the US dollar. As a reminder, as these currencies weaken, our cost of products in local currencies there rises, creating gross margin headwinds as we import into these markets from the US and from Europe.

Our reported tax rate for the first quarter was 23.5%, while our nonoperating -- our operating or non-GAAP tax rate, excuse me, was 22.6%, which represented an 80-basis-point increase compared to our operating rate for the first quarter of last year. This is consistent with our comments on the last call, and we continue to anticipate the tax will be a headwind of between 70 basis points and 100 basis points for the year.

Net income attributable to DENTSPLY International on an as-reported basis in the first quarter was $72.9 million, or $0.50 per diluted share, and this compares to $71.7 million, or $0.49 per diluted share, in the first quarter of 2013. These results include a number of items which we've listed in the schedules of the release.

On an adjusted basis, net earnings grew to $85.5 million from $75.2 million in the prior-year quarter, and adjusted diluted earnings per share grew 13.5% to $0.59 per diluted share. Of course, this earnings growth rate includes the headwinds from both currency and tax that I described earlier.

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The Company incurred approximately $800,000 in net restructuring costs in the quarter. These costs are related to the plants consolidations that Jim mentioned, and we anticipate that we're going to see additional restructuring charges related to these initiatives, as well as other footprint consolidation opportunities as we move forward.

Moving on to cash flow, our operating cash flow for the quarter was $64.6 million, up from $34.8 million last year. Inventories now stand at 120 days, which is up 6 days compared to December 2013, and up 10 days compared to prior year. As we mentioned on several previous earnings calls, we have strategically increased inventory in a few businesses as part of transition plans associated with anticipated operational changes. We anticipate that inventory may continue to increase slightly through mid-year to support these efforts before returning to more normal levels as we move through 2014 and 2015.

Accounts receivable days were 61 days at the end of March, up 5 days from year end, mainly due to seasonality, and are up 2 days compared to March 2013. Capital expenditures were $25 million in the quarter, while depreciation was $21 million, and amortization was $13 million. In the quarter, the Company repurchased just under 900,000 shares.

In terms of our capital deployment approach, I want to reiterate that our intent continues to be to support repaying debt, while also using the balancing uses of free cash flow to support reinvesting in the business, acquisitions, share repurchases, and dividends, so really continuing to be a balanced approach.

Finally, as Bret stated, based on our first-quarter results as well as our current view of the relevant market factors, we are adjusting our adjusted -- we're updating our adjusted earnings per share guidance to a range of $2.47 to $2.55. Our guidance reflects the impact of a more difficult comparison in Q2, including a 19.2% operating margin rate last year, as well as additional consulting costs associated with the efficiency and purchasing initiatives that Bret described. It also reflects the anticipated benefits from these efforts as we move through the year, recognizing that these will accelerate as we move to 2015 and beyond, enabling us to return to a 20% adjusted operating margin rate in three years.

This completes our prepared remarks, and we certainly appreciate your support and would now be glad to take any questions you might have.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

We'll take our first question from Jeff Johnson with Robert Baird.

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

Thank you. Good morning, guys. Can you hear me okay.

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

Yes, good morning.

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

Great. Bret, just want to talk to you on the operating margin target. I don't remember you guys ever throwing a three-year target out there, maybe you have. I just don't remember it at this point. But a few questions on that. One, should we be thinking about the 170 basis points or so that that implies over a three-year period of improvement off last year's number of a consistent 50 to 60 basis points a year each of the next three years, number one. Number two, anything other than better procurement maybe that you could go into some detail on what gives you the confidence over the next three years on that. And then what are your organic growth assumptions in that? If we go back to a 4% or 5% organic growth rate, would there be upside to that, or is that a base-case assumption that we should just stick with at this point? Thanks.

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

Okay, Jeff. There's a lot there, but let me try to plow through it. The operating margin target of 20% is compared to a baseline 2013 of 17.6%, so it's a 240 basis points improvement over this three-year period. Like most things in life, it won't come in linear, in a linear basis, it will be a little bit bumpy. For instance, we had a very strong operating margin improvement in the first quarter. We're going up against a very tough comp in the second quarter. Even in this year, you won't see it come in on a linear basis over the four quarters. But I think you should expect to see us make progress against that 240 basis points each year. It's not that we're going to take a year off, we're going to be needing to make progress on that each year.

You mentioned procurement and are there other things? There are other things, including better leveraging our whole cost structure, our overhead structure, and our capacity utilization of the facilities in particular on top of procurement. So it's a broader initiative than just a procurement initiative that we mentioned on the call here this morning.

I'm not going to make any assumptions on organic growth over that period of time. The reason is, it's hard enough for us to predict a year. I don't want to predict three years out, but the theory here and the modeling that we're doing is that we would adjust our cost structure such that we could grow earnings in a low-growth environment, which would turbo charge the earnings if the global consumable market returned to that 4% to 5% range.

We're taking both those into account and rather than making an organic growth assumption out three years, we're trying to set the Company up for success, despite what the market conditions would hold.

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

Thanks, that's helpful. And then one last question on Russia and Ukraine. As you mentioned, that took a big chunk out of Europe. Is there any chance you could give us any kind of Europe ex those markets or sized for us, how bad those markets were and what percentage they might be of Europe in that, just to help us out with the math on that?

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

I'm going to start on this. I'm going to let then Chris comment, probably on our international growth ex Russia and you Ukraine. But just for perspective, because of the devaluation of the currencies in both Russia and the Ukraine, I think those markets are feeling a lot of pressure, and consumer confidence is certainly off because of the war activity. Our sales in the first quarter in those two countries were down strong double digits, materially down. And that's in part due to some pretty tight credit standards that we hold to, and in part, due to I think consumer confidence in those markets as well. That could rebound at any time, but it's hard to predict when that might happen.

Let me then, turn this over to Chris.

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

On an international basis, excluding Russia, we are up low to mid-single digits, so we were north of 3%. And again, I think overall had some pretty nice momentum, as Bret mentioned, in Western Europe as well as in many of those rest of world countries.

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

Alright, Chris. I'll work through the math, but Europe, that was not a Europe number up low to mid-single digits? That's the international overall.

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

That's an international number.

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

Europe would be up low single digits as well.

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

Europe is also up low single digits.

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

Thank you.

Operator

We'll take our next question from Glen Santangelo with Credit Suisse.

Glen Santangelo - *Credit Suisse - Analyst*

Bret, I wanted to follow up on some of the comments you made regarding the US. I think you seemed to suggest that US was negative for the first two months of the year, and you said the weakness was predominantly in the Eastern half of the country. And I'm guessing you're making the obvious connection that it was weather-related. I was wondering if you could quantify what you thought weather might have impacted your sales in the current quarter. And then as a follow-up to that, I think you suggested that March had snapped back, and I'm curious if you're willing to extend that comment to April. Are you pretty confident that it's back to business as normal?

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

Okay, Glen, good morning. Let me just give you a little bit of color there. First of all, Derek has a jar on the table here, and every time I use the W word I have to put $10 in the jar, so I'm not going to use the W word.

Glen Santangelo - *Credit Suisse - Analyst*

Every other Company is. You might as well.

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

We're different. To give you a little perspective, there was a 500-basis-point difference between our regions east of the Mississippi and west of the Mississippi for the first two months of the year. So it was a pretty dramatic, notable and material impact in January and February.

That did mitigate somewhat as we exited the quarter, such that the difference for the entire quarter was only 250 basis points, but it was still pretty material impact over the entire quarter. And again, that's the difference between east and west. I have a little bit of a hard time quantifying what weather actually did to the US market and to our results, in particular, in a quantifiable way. But it's certainly clear that it diminished the growth pretty significantly. Offices were closed on the east side of the country for three, four days during the quarter, so that comes right out of sales.

It's premature for me to talk about April. I will say that March did perk up quite a bit, and we're hopeful to see that continue now into the second quarter. Anything to add to that?

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

No, I think that's pretty accurate. Again, March did come back. Now we have an extra shipping day in March as well. In short, there's no doubt that it was a different pattern than what we saw in January and February.

Glen Santangelo - *Credit Suisse - Analyst*

Hey, Chris, maybe if I could just follow up on the comments you made regarding currency in the quarter. I think you suggested -- you gave us some detail on the currency, and I think you suggested it was a $0.02 impact in the quarter. If I go back to the comments you made last quarter, I think you were embedding within your original guidance a $0.04 currency impact for the full year. And it seems like you've already incurred -- 50% of that hit in the first quarter. How are you thinking about the impact of FX on the full year now? And has that changed within the context of your guidance?

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

Glen, I think at this point, we're pretty similar to where we -- I think it's pretty similar to where we were. You're right in the context that we indicated about a $0.04 headwind embedded in the guidance. We've experienced $0.02 in the first quarter. We knew the first quarter was going to be the most difficult comparison for us. The challenge obviously is rates are bouncing around a ton right now. We are anticipating that the headwind, if you will, in the emerging market currencies and really the non-European developed currencies, will continue. And obviously that's got some risk on sales, as well, because of the pricing challenges there as well in some of those markets.

But at this point, it's just too early and too volatile really for us to forecast differently. So we're keeping a close eye on it, and we'll obviously, reflect any significant changes as we move forward. But I think at this point in time, we're staying put with where we were.

Glen Santangelo - *Credit Suisse - Analyst*

Thank you.

Operator

Our next question comes from Robert Jones with Goldman Sachs.

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Robert Jones - *Goldman Sachs - Analyst*

Thanks so much. Just wanted to circle back, Bret. You've talked a lot about on this call about accelerating efforts to leverage the platform and get more out of the cost structure. Given there hasn't really been any notable change to the organization in the last few years, I was curious maybe around timing and what specific initiatives and time lines that you're targeting to really get more leverage out of the business.

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

Okay, Bob. Good morning. I think if we go back and talk about or look at what we've been talking about on these calls for some time, this has been a topic that's been of importance to us. We did see our operating margins decline two, three years ago coming out of the recession, in part due to ortho and in part due to the acquisition of ASTRA TECH. And we've been busy trying to repair the ortho business, and then, also get the synergies out of the ASTRA TECH acquisition. And I think you're seeing us get some of those benefits here over the last four quarters.

The idea, though, is that the business is structured largely as it was when it was a $1 billion business, now it's a $3 billion business. It's rather complex, and in the supply chain, we think there's some ability, things we learned through the ASTRA TECH integration, but also some other learnings that we've had that make it apparent that there's probably more to leverage in this platform than maybe thought four, five years ago. And so, we're now moving forward to get those.

I wouldn't consider this something that's brand new. I think you'll probably see this -- if you go back and look, you'll see this in our remarks over the last 12 months or maybe 18 months. But there is an acceleration in the effort and in certain cases like procurement, which we've mentioned, we've gone out to get outside help to make that -- to get to that quicker. So I think it's an acceleration of what we were thinking before, rather than a directional change in what we were thinking before.

Robert Jones - *Goldman Sachs - Analyst*

Got it. I think coupled with the introduction of the three-year operating margin goal, it just seems a little bit maybe more pronounced this call. These efforts clearly have been ongoing.

Changing gears over to the implant business, and I apologize if I missed this, but can you guys maybe update us on what the growth looked like in the quarter by region? How have the implant -- how have your implant businesses trended relative to your original expectations, and any notable change in the competitive landscape?

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

This is Jim Mosch. As far as our global implant business is concerned, we have the benefit as the premium implant companies have reported at this point in time. And what we see from a market perspective is that on a constant-currency basis, the growth is in a range of 2% to 6%.

As we look at our own business, we would say that we're on the lower end of that range. However, as Bret mentioned, one of our more significant impacts was in Europe -- was in Russia and [CIS]. And if we exclude that impact, we would be at the upper end of that range. And we are one of the market leaders in Russia, so the impact was certainly more pronounced.

Robert Jones - *Goldman Sachs - Analyst*

Got it. Thanks.

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

Thank you.

Operator

We'll take our next question from Brandon Couillard with Jefferies.

Brandon Couillard - *Jefferies & Company - Analyst*

Thanks. Good morning.

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

Good morning.

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

Good morning, Brandon.

Brandon Couillard - *Jefferies & Company - Analyst*

Bret or Jim, can you speak to any traction you're seeing with the new MTM product and how is the uptake of that pacing in the US relative to your expectations? Do you think you're capturing any share at the low end of the market there?

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

As you know, Brandon, we launched that in the latter part of 2013, really a preliminary launch at the ADA in October. The traction has been good, and one of the aspects of this system is that customers purchase a kit, they're trained, and then there's -- they do their initial cases. And then the question is your ability to build upon that case submission.

And we've seen good movement in that. We have a couple regions we had launched in Canada earlier, and actually we can see their progress and how those case submissions have grown, and we are beginning to see traction in the United States. So we're pleased with our ability to place kits, but I would say we're probably at the early stage of that.

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

And I might add to that, Brandon, that this product, because of some technique sensitivity and so forth, requires clinical education to get it moving. So one of the barriers here is to get people in to courses, get them trained, and then get them through that first case submission that Jim was talking about. We're pleased with where it is, although, I think we've emphasized that this is a product for minor tooth movement, not full cases, and it will be interesting to see where we can take it.

Brandon Couillard - *Jefferies & Company - Analyst*

Thanks. And then Chris, on the inventory front, do you think we're at a plateau level here yet? And could you give us a an update on your operating cash flow expectations for the year?

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

From an inventory standpoint, we indicated that the inventories would creep up a bit through the first half of the year, associated with really some of the strategic moves. Obviously, we referenced a bit of that this morning. I would anticipate, Brandon, that could possibly come up a little bit more in the second quarter; then our expectations are that inventory comes down from there and we make progress on that.

Certainly, from a cash-flow standpoint, we're pleased relative to the first quarter. I think that we've got some opportunities relative to networking capital as we move forward from there. I think that's something certainly that management's very focused on. So from that angle, I think over the -- probably another quarter, a bit of an inventory build, but then over the next several quarters, our expectation is we make more progress on that.

Brandon Couillard - *Jefferies & Company - Analyst*

Super. Thank you.

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

You bet.

Operator

We'll take our next question from Steve Beuchaw with Morgan Stanley.

Steve Beuchaw - *Morgan Stanley - Analyst*

Good morning. Thanks for taking the questions.

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

Good morning.

Steve Beuchaw - *Morgan Stanley - Analyst*

I wonder if you could spend a minute on execution in the implant business. Now that you're at the outset here of 2014, we have a better understanding of what the realities are in the end markets, and you're through the sales-force integrations globally. Would you say you're at a point now in 2014 where you feel like you're on your front foot in a position to take share? Are you in a position where you might be thinking at all about any incremental changes to distribution or product strategy? And can you give us a sense for where you think you might land relative to market growth this year?

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

Yes, Steve. This is Jim Mosch. From the standpoint of what you characterize with the integration, I would say that that's accurate. We completed really our last integration, which was Japan in June of last year as one of our large -- we did really three large ones in last year, which was Japan, France, and Germany in the first half of last year. We have moved through those, and some of those as we mentioned with Germany, we've seen stabilization, and I feel that we are on our front foot.

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As we look at the business overall, I mentioned EV. I can't emphasize enough, we do not -- we have basically three implant platforms. This is a new one. It is very much of a successor to the current (inaudible) system. So this is a major event for us, and we will be fully occupied with a global launch of this product in 2014 and beyond.

Additionally, we continue to enhance our ATLANTIS platform. That continues to be a real strong part of our portfolio, continues to grow and expand. We've been very pleased with that performance, and certainly, we will seek to expand that globally. We also have plans to expand our regenerative portfolio, which is primarily US-based at this point in time.

So we have a lot of activities in place that we feel that will allow us really to leverage the business platform that we've created. And I think we're in a comfortable position.

There are some markets that certainly are challenging right now. Obviously, we mentioned the whole Russia-CIS issue, Southern Europe has kind of -- it takes a step forward, two steps back, but overall, we're comfortable with where we're progressing.

Steve Beuchaw - *Morgan Stanley - Analyst*

Thanks. That's helpful. One clarification on the business in North America, I know thinking back to a couple quarters ago, there was an expectation that we'd see a normalization of inventories in the distributor channel and that might be a bit of a drag. Was that a factor here in the quarter, and are we through that trend where distributor inventories are back to normal? Thanks.

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

It's Chris. I'll take that. At this point, we really think channel inventories in aggregate, really had minimal impact on sales growth in the quarter. We had some gives and takes across the businesses. Obviously, if you look at Japan, for instance, there's probably some build in the channel there. There was some takedown in some channels, some other businesses.

So we really don't think at this point that the channel inventory net change in the quarter was demonstrably different from what we saw a year ago, so I wouldn't guide that it had a real impact on the quarter result.

Operator

Our next question comes from John Krieger with William Blair.

Robbie Fatta - *William Blair & Company - Analyst*

It's Robbie Fatta in for John today. Good morning. A follow-up on the impact of EV. How should we think of aggregate new product introduction benefits in 2014 versus 2013, given this significant launch?

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

Robbie, when we look at an implant conversion I think, as I said, this is a successor product. So at the end of the day, our expectation is over a period of time, we will have a group of EV users as opposed to the previous OsseoSpeed product. That's really what our objective is. Our long-term objective is not to have a legacy implant system in the marketplace.

So in order to do that, obviously you have a conversion process and that oftentimes the involvement of the customer basically purchasing a new surgical kit, also some new implants. There's a tendency for them to liquidate their existing inventory at that time, so you see that you see a little bit of a pullback of a purchase of the older system as they buy the new system, and that there is a conversion process.

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One of the things that I mentioned in my comments is we are happy that the clinical effectiveness and utility of this product has encouraged some competitive platform users. We are heavily focused with our existing conversion, our existing users at this point in time. We would hope for a little bit of an uptick, but to be realistic, in 2014, we're very much in a conversion phase. And I think that that's going to be fairly consuming from a standpoint of our business focus.

Robbie Fatta - *William Blair & Company - Analyst*

Great. That's helpful. And as a quick follow-up, on the acquisition front, how are you guys thinking about that this year? Is activity ramping up or are you seeing it fairly stable right now?

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

Yes, Robbie, it's Chris. At this point, I think a couple points on that. First off, we're obviously focusing on integrating three transactions here over the last three or four months. We certainly have others in the pipeline. I would say it's certainly an area we continue to be active, but we'd be premature really at this point to comment further. Other than that obviously acquisition growth and making the Company stronger via acquisition continues to be a key focus area for us, but it's always hard to predict the timing of transactions.

We continue to be active. We're right now focused on integrating the transactions here, the three we've had over the last few months, and again, we continue to pound the pavement.

Robbie Fatta - *William Blair & Company - Analyst*

Great. Thanks so much, guys.

Operator

Our next question comes from Jon Block with Stifel.

Jon Block - *Stifel Nicolaus - Analyst*

Great, thanks and good morning. Maybe first one, Bret, I know you gave some commentary in and around implants, but is there any specifics you can share with us within specialities of low single-digit growth? If you could break out ortho versus endo versus implant, directionally?

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

Well, we don't like to break the business down into eight or nine pieces and give all the pieces, but I will tell you that as Jim mentioned, implants was in the -- he said the range was 2% to 6%. We were in the low end of that range with Russia, high end of the range without Russia, so that gives you some idea there. Endodontics continued to perform well, and ortho is a business that's under really, really heavy competitive conditions right now. So we performed the lowest of the three businesses in that category.

Jon Block - *Stifel Nicolaus - Analyst*

Okay. Perfect. Thanks for that. And then a bigger picture and higher level, if you can speak to your thoughts on market share. It's always been the DENTSPLY mantra to get on the call and say you've taken market share, and I realize there's always moving parts and you called out Russia. But if I go back and look at your numbers over the past 4, 5, 6 quarters, it looks like you might be lagging versus some of your competitors.

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So can you speak to how you feel DENTSPLY's position in the market has evolved over the past 4 or 5 quarters, and do you still think you're taking share? And if not, how is that going to change in the coming quarters?

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

Okay. Well, it varies by business, of course. But overall, for instance in this quarter, we feel pretty good about Western Europe and the rest of world categories. I would say with rest of world close to 9, we probably are taking share in those regions. Western Europe and Germany, we feel pretty good about right now, given the results we had this quarter. Certainly in Russia and Ukraine, who knows, because we're down strong double digits. I assume everybody's down pretty significantly there. We just happen to have a large share there, so maybe it's a disproportionate impact on us.

On the US, I'm a little bit hesitant to comment yet. We think the market was flat in the quarter. That's based on our results, because we don't have industry data yet, and we don't have the two largest distributors having reported, although, I think one reported today. We might learn more than that today.

But we suspect that our number of 0.1% growth seems low, but it also feels to us that the market was probably flat, maybe the market was down. We don't know yet. So I don't anticipate that we're losing share with a 0.1% growth, as low as that seems.

Overall, I feel pretty good about it; of course, it varies by business. Some areas I think we're taking share; some areas that we're neutral and there's probably a few isolated cases where we're losing share. I think in the lab category, in particular, we continue to lose some share.

Jon Block - *Stifel Nicolaus - Analyst*

Maybe two more quick ones if I could. First, a clarification: the 20% op margin goal, is that specific to full-year '16, full-year '17, somewhere in between? Any clarity there?

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

It's three years out, so it's full-year '17. We'd like to be in a position exiting ;1'6 where we can hit that target in '17.

Jon Block - *Stifel Nicolaus - Analyst*

Perfect. Lastly, Bret, last call you talked about your guidance and lined it up versus market growth of around 100 BPs in North America and a little bit more than that O-US. And like you said, weather-wise, we got off to a slow start in the North America and O-US you ran into problems in Russia. Yet, here you are confirming guidance, arguably bumping it up by $0.01.

Can you compare and contrast that? Do you still feel good on the market growth metrics that you broke out last quarter going forward for the year? Thanks, guys.

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

Okay. That's a good question. I think what we said in our February call is we were expecting 100-basis-point improvement in market conditions in both the US and Europe. I would say generally speaking, we see that emerging in Western Europe. We'd like to see that continue. That's always a risk, but right now, we feel pretty good about that.

Certainly the US did not accelerate, it in fact, slowed down materially in this first quarter. We're thinking that's an anomaly, and we're going to see that bounce back later in the year. That is embedded in our guidance that we expect the US market to improve not only over what happened in the first quarter, but what happened last year. So there's some risk to that, because we haven't seen that happen yet.

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Russia and the Ukraine collapse was not in our guidance, and we'll have to overcome that in other areas in order to be in our guidance range, and we've got some ideas on how to do that. So we are still expecting the acceleration in the US and Europe. Russia looks very uncertain. Currency looks very uncertain. And on balance, though, we think that the guidance lift here makes sense based on what we see in the pipeline right now.

Jon Block - *Stifel Nicolaus - Analyst*

Great. Thanks for your time, guys.

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

Thank you.

Operator

Our next question comes from Steven Valiquette with UBS.

Steven Valiquette - *UBS - Analyst*

Thanks. Good morning.

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

Good morning.

Steven Valiquette - *UBS - Analyst*

A couple of clarification questions from me as well: first, on the incremental cost you talked about for the next one to two quarters for the savings programs, are those going to be considered separate restructuring costs? Or are those going to flow through the P&L in the regular COGS and/or SG&A lines?

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

Those consulting costs would flow through the regular SG&A and COGS lines.

Steven Valiquette - *UBS - Analyst*

Okay. And also just to clarify a little further on the 20% EBIT margin goal. Will most of that expansion then come through in the gross margin line, or should we expect some material improvement in the SG&A line as a percent of revenues as well? Thanks.

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

It's going to be a balance of both.

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Steven Valiquette - *UBS - Analyst*

Okay.

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

I think on the capacity utilization, the overhead absorption issue, that will come through cost of goods sold line, and then leveraging our overhead structure, our SG&A structure, of course, will come through the SG&A line. It will be a balance.

Steven Valiquette - *UBS - Analyst*

Okay. Great. Thanks.

Operator

(Operator Instructions)

Our next question comes from Greg Halter with Great Lakes Review.

Greg Halter - *Great Lakes Review - Analyst*

Thank you and good morning.

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

Good morning.

Greg Halter - *Great Lakes Review - Analyst*

Just wonder if I could get your thoughts on capital spending. Certainly, the figure you're looking at this year and then going forward, given your operating profit margin goal, and again, in consideration for plant consolidations and so forth.

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

Sure. Greg, it's Chris. We'll take a shot at that. I think relative to 2014, I think in our original guidance we guided to about $130 million in terms of capital spending for the year. That includes some larger projects that we had some carryover, if you will, from 2013.

So I still think that's a reasonable number at this stage in the game. If anything, we may be a little bit light to that. I think $130 million is probably a reasonable number.

As we move forward, certainly one of the objectives of these initiatives are to better leverage our cost structure, and I would say that includes capital spending as well. There may be some investments necessary to do that, but again, we'll provide color on that as we move into it. But I think over a longer period of time, you would expect, again, as part of our cost structure, us being able to leverage our asset base more effectively as well.

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Greg Halter - *Great Lakes Review - Analyst*

And related to that, are there any changes being made in the R&D, the way it's being handled out of facilities or the focus?

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

R&D will be part of this effort to get better utilization of R&D. Today, it's spread around quite a bit throughout the Company, although, we don't think there will be a physical consolidation of R&D. There might be a virtual impact on R&D where we bring scientists together on platforms virtually.

I'd also say that R&D, we mentioned we think we can improve our efficiency, and then part of that efficiency we'll put back in reinvestment. R&D is one of the areas that we would focus on for that reinvestment.

Greg Halter - *Great Lakes Review - Analyst*

One last one. You mentioned 900,000 shares purchased in the quarter. What was the dollar amount spent on the share repurchase in the quarter?

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

It was about $36 million net of option proceeds.

Greg Halter - *Great Lakes Review - Analyst*

All right. Thank you.

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

Thank you.

Operator

We have a follow-up question from Jeff Johnson with Robert Baird.

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

Thanks. Good morning. Thanks for taking the question, the follow-up. Jim, one follow-up just on the EV product itself. I'm going back through my notes, and it looks to me like you guys were going to be selling that product or thought were you going to be selling at about a 5% to 10% price premium to other your higher end products. Is that what you're seeing so far in the US market?

And if you're getting that, would love to hear how you're positioning that to your customers in a market where generics are obviously gaining traction, how you position a premium price and a price increase to your customers. Thanks.

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

Yes, Jeff, thanks. The EV product is at a slight price premium. I think as I outlined to the earlier question, in the early stages of this process where you're converting a customer, you have an awful lot going on there as it relates you to the swap-out of surgical kits and things of that nature and

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the purchase of those. These tend to be a bundle purchase. So some of that is difficult to see at the early stages. We are seeing a slight price uptick, and we will expect that to continue long term.

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

I'll add to that, Jeff, that this market in particular we think that technology, innovation, technology, and clinical evidence is important to the clinicians, remains important to clinicians. This product's not one that really competes on price, per se. It is competing on the performance that it's going to give the clinician, and that's where we're getting a very positive response from our customer base.

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

Bret, do you think that will be true as you go into Europe then with it, especially into Southern Europe and/or Germany where the generics have picked up some traction here recently?

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

Speaking to Germany specifically, we have a very strong position with our premium products in Germany in both -- really all three systems, the ASTRA TECH system, [zybe] and Ankylos. And we've done some preliminary launch with some of our KOLs and whatnot. It's been very well-received. We anticipate we are going to get good uptick Germany. We've had some very preliminary launches similarly in France and the UK, which will kick up more in the second part of the year, and so, we've seen very good response.

So that aspect I think, Jeff, we feel pretty comfortable with. Obviously, the markets of like Southern Europe, Spain, and Italy, the premium systems are not as strong a portion of those markets. There's a lot of local players. And that's really dictated more by the structure of the market.

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

Got it. Thanks, guys.

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

You bet.

Operator

And that concludes the question-and-answer session. I'd like to turn the conference back over to Derek Leckow for any additional or closing remarks.

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

Okay. Thank you all very much for your interest in DENTSPLY. That concludes our conference call. If you have other questions, I'm available today for follow-up. Good-bye.

Operator

That concludes today's teleconference. Thank you for your participation.

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