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XRAY - Q4 2012 Dentsply International Inc Earnings Conference Call

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OVERVIEW:

XRAY reported 4Q12 reported net income attributable to Co. of $126.8m or $0.88 per diluted share. Expects 2013 adjusted EPS to be $2.38-2.48.

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PRESENTATION

Operator

Good day and welcome to the DENTSPLY International [third] quarter 2012 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.

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

Thank you very much, Mark. Thank you all for joining us this morning to discuss DENTSPLY International's fourth-quarter and fiscal 2012 results. Joining us on the call today are Bret Wise, Chairman and CEO; Chris Clark, President and COO; and Bill Jellison, Senior Vice President and CFO. We will have some prepared remarks and then we'll be glad to answer any questions you may have. I hope you all had a chance to review the press release which we issued earlier this morning. A copy of the press release is available for download on our website, ww.dentsply.com. We have also provided a set of supplemental slides to accompany this call, also available for download under the Investor Relations section.

Before we get started it is important to note that this call may include forward-looking statements, including risks and uncertainties. These should be considered in conjunction with the risk factors and uncertainties that are described in our SEC filings. 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.

And a recording of this call in its entirety will be available on our website. As you can see in the release, our results this quarter include a number of non-recurring items and other non-GAAP adjustments. Our comments on this call will focus on results including certain adjustments that provide operational insight, excluding these items. These items are noted on the non-GAAP reconciliation tables contained in the release. You'll also note that our earnings guidance is also presented on an adjusted basis.

With that I'd now like to turn the call over to Bret Wise. Brett?

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

Thank you, Derek, and good morning, everyone. Thank you for joining us on our year-end call this morning. Today we're very pleased to report record sales and earnings for both the fourth quarter and also the full year 2012. Before we dive into the results, I think it's important to take a look back at what the goals and initiatives were we had coming into the year, and how we did against those. So, as you recall, on this same call last year, we had several important goals that we needed to achieve in 2013. Most notably those were to continue to grow organically above the market, to have a successful mid-year relaunch of our orthodontics product line, to reach our goals in the integration of AstraTech, while continuing to grow above market in the premium implant segment, and to have strong cash flow generation for debt reduction during the year. In addition, we had forecasted that our operating margins would lag in the first half of the year, but would turn positive in the back half of the year.

All told, I think we did very well against these objectives in 2012. For the full year, internal growth was 4.0%, which we believe is at least 1 full point above the market. Strong execution on new products launched in both 2011 and 2012 contributed to this, as well as the strategic investments that we've made in sales and marketing resources. In orthodontics, we did relaunch the line mid year. And we recaptured what we estimate to be about one-third of the market share that we had lost following the natural disaster in Japan. Orthodontics boosted our internal growth rate by 150 to 160 basis points in both the third and fourth quarters, while for the full year it was basically neutral to the overall results. On AstraTech, by the end of the first quarter 2013, we will have essentially completed phase one of the AstraTech integration, which is the most disruptive part of the integration, by merging the two divisions and their sales forces in approximately 20 countries. We knew that this would create risk, and it would be disruptive to our customers and our employees, and we would have the reps out of the field for training, et cetera, during this period of time. However, the execution so far has been very good, in my view, and we continue to perform above the market despite this disruption.

On our capital structure, we did complete one very small acquisition late in the fourth quarter and completed some share repurchases early in the year. However, the lion's share of our cash flow in 2012 went towards improving the balance sheet. We made good progress on this throughout the year, including the fourth quarter where we had very strong cash flow generation. In fact, record quarterly operating cash flow generation for the Company. At this point, we're already closing in on our longer-term leverage ratio targets and I expect we'll bring these down further in 2013. But we now also have more flexibility for acquisitions and returning cash to shareholders. With respect to profitability, we also performed very well, attaining the operating margin expansion we were looking for in the back half of the year. And that culminated in a 110 basis point improvement in Q4 versus the prior year's fourth quarter.

So looking back, we did a lot of things well in 2012. One thing that we did not anticipate at the beginning of the year was the significant mid-year weakening of the euro. As noted at the beginning in our second-quarter call, this had a negative impact on our earnings in the back half of the year. And, in total, cost us approximately $0.04 to $0.05 per share for the year versus where we started.

Shifting to some of the numbers, as I mentioned our internal growth for the full year came in at 4.0%, well above what we believe the market grew for dental consumables. Ex-ortho in Japan, by the way, was essentially the same at 3.9%. Internal growth for the full year was the highest in the rest of world category at 7.2%. We had 3.6% in the US. And Europe was 2.6% for the full year. In the US, we had pretty good growth momentum, despite facing some big comps in the second half of the year. And Europe at 2.6% for the year is certainly well above market. And we've been running very positive in Europe, with positive internal growth ex-ortho in Japan for the last 12 quarters, despite the severe economic disruption that we see in that region. For the full year, both our specialties and our chair side consumables came in at mid single-digits internal growth, while non-dental was low single-digit growth, and lab was essentially flat.

Just quickly, looking at the fourth quarter, internal growth was 5.9%. That was boosted by orthodontics but was still 4.3% ex-ortho, which I think is still very good and above market. Regionally the US was 5.9%, Europe was 3.1% and rest of world was 12.1%. Although we're not going to be real specific, the increase from ortho benefited each region somewhat the same, if you want to model it. In the US, we had both really tough comps in the fourth quarter. We had over 7% growth in the fourth quarter of the prior year. And we also did see some disruption on the East Coast from Hurricane Sandy, which was quite pronounced in our regional growth numbers on the East Coast following the storm. This was offset somewhat by some slight buying ahead by our distributors in the US in front of a January 1 price increase, although we think this activity was probably much less for consumables than it was for equipment.

In Europe, our new product portfolio continues to drive growth well above market and rest of world. Particularly in the emerging markets, did very well for us in the fourth quarter. However, it's important to note that we had a fairly easy comp in that region coming out of last year. From an adjusted earnings perspective, as I mentioned earlier, we're pleased to see operating margins improve 110 basis points in the quarter, which is particularly encouraging given that we brought inventory down substantially in the quarter and boosted cash flow. Adjusted EPS was up 9.8% in the quarter and finished the full year at $2.22, also up 9.4%.

Looking ahead, we continue to see good opportunities for our new innovation, including a pretty robust pipeline. And we believe we'll continue to have very strong opportunities for growth in the emerging markets. I've asked Chris Clark to comment on both these opportunities here this morning in a minute. We also are very focused on operating margins and cash flow for 2013 and we believe we can return to a more regular pattern in both of these important measures.

For 2013, we believe we have another strong year built off the points I've mentioned here. There obviously continues to be risks in the underlying economies, particularly in Europe and the euro, while currencies in general are very volatile. Based on the conditions we're seeing, today we're targeting adjusted earnings in the range of $2.38 to $2.48 per share for all of 2013.

I'd like to now turn the call over to Chris for his comments on emerging markets and the innovation pipeline. Chris?

Chris Clark - *DENTSPLY International Inc. - President, COO*

Thank you, Brett. Good morning, everyone. I'm going to take a few moments and provide some deeper insights into our strategies to drive continued above-market growth in emerging market regions, as well as an update on our new product pipeline, including highlights of some of our early 2013 launches.

We're very pleased with our progress in emerging market regions, which have really been a strategic focus area for us for the past couple years, and now account for approximately 15% of our revenue. In 2012, these regions delivered double-digit internal growth. And while these countries are obviously among our fastest-growing markets, we believe we are growing faster than the dental consumables market in these countries in aggregate. Importantly, our emerging market growth is accretive to each of our major product categories, and we're generally pleased by the breadth of our performance in these markets.

Our approach to these markets continues to be focused on expanding sales representation and commercial resources, particularly in the fastest growing markets. Strengthening our organization in these countries to drive and support future growth, and increasing our use of dual branding approaches. Our investments in sales and marketing resources leverage our existing selling and distribution infrastructure, and should allow us to move beyond the very premium segment of these markets and into the next layer of the emerging middle class populations.

I'd also like to specifically comment on the expansion of our dual branding strategies, as this approach allows us to reach larger economic segments of these growing markets, while minimizing the likelihood of reimportation back into the developed markets, namely the United States and in Europe. We continue to expand our dual branding platform in the chair-side consumables area to encompass additional product categories and markets. In addition, this strategy is also playing an increasing role in our approach to these markets in the specialties area, with unique products that are commercially available only in emerging market countries. So, in short, we're continuing to find this to be an effective strategy that's expandable to other product categories.

I'd also like to comment on our innovation pipeline, where new products have been key catalysts to our above market growth rate over the past couple of years. At this point we're very encouraged by our pipeline for 2013 and we will be introducing or showing several of these products at this week's Chicago mid-winter show or the upcoming International Dental show in Cologne, Germany next month. In the chair-side consumables area, we're showing the NUPRO 5% Sodium Fluoride White Varnish at the Chicago show this week, with shipments expected to begin next month. We have a patent pending on this unique white formulation that sets clear and has been shown to release significantly more fluoride than other leading products over a two-hour period. Also in the hygiene area, we're continuing to expand on the strong success of the RDH Freedom cordless hygiene hand piece. With the introduction of NUPRO Revolv disposable contra angles that are designed with improved ergonomics for greater clinician comfort. These angles will first be available for traditional hygiene hand piece platforms, followed by the RDH Freedom platform a few months later.

In the endodontics category, we're introducing the next generation of nickel titanium files with ProTaper NEXT, designed with a patented off-center rectangular cross-section that provides a snake-like swaggering movement. This file is designed to be more efficient in debris removal, and also optimize shaping along the track of the canal. This design also utilizes our proprietary M-Wire nickel titanium material, which has greater resistance of cyclical fatigue, which is the leading cause of file separation.

Finally, in the healthcare area, Wellspect HealthCare has introduced a new LoFric Origo compact male catheter. This instantly activated catheter provides several unique advantages that are preferred by patients, and help to improve infection control. I would note that our LoFric Sense compact female catheter, which was introduced in 2011, is continuing to drive market share gains in that category, as our female catheter sales increased by almost 30% in 2012.

I would just close with a comment that we're overall quite pleased with the strength of our new product pipeline. And I look forward to providing you additional updates on some of the exciting new product launches throughout the year. I'd now like to turn the call over to Bill Jellison who will cover the financial results for the quarter and also the full-year 2012 in greater detail.

Bill Jellison - *DENTSPLY International Inc. - SVP, CFO*

Good morning, everyone. Bret already discussed our sales growth within the quarter and the year, but I wanted to add a couple of additional comments regarding our sales. The 2012 geographic mix of sales without precious metal content was as follows -- the US represents 33% of sales, Europe was 45% this year, and the rest of the world was 22% of sales. Although it's difficult to estimate, we also believe that the internal growth rate in the period may have been benefited by approximately 50 to 100 basis points from dealer inventory changes, including buy-in ahead of our January 1 price increase, an extra selling day, albeit it was only December 31, and the offsetting impact of Hurricane Sandy on the business in the northeastern United States during the quarter.

A strong US dollar compared to last year in both the quarter and for the full year negatively impacted our sales by 2.1% and 3.8%, respectively. The effective changes in foreign exchange rates also had a negative impact on adjusted earnings per share compared to last year for the full year of approximately $0.04 to $0.05 per share, while the impact on the quarter was minimal. These impacts included benefit from layered currency hedges.

As Derek mentioned, and as you can see in our earnings release, the fourth quarter as well as the full year included a number of items which impacted our results, which we have identified as non-GAAP adjustments. To better understand and follow some of the following comments, you can look at the tables included in our recent press release, which reconciles performance from US Generally Accepted Accounting Principles, or GAAP, to adjusted non-GAAP performance.

Gross profit margins on an adjusted basis as a percentage of sales, ex-precious metal content in the fourth quarter of 2012 were 56.3% compared to 56.6% for the fourth quarter of 2011. When compared to the same period last year this rate was negatively impacted by product mix, which mostly resulted from a higher level of orthodontic sales and the effects of a softer implant market. Manufacturing costs were also higher in the period. However, these costs were more than offset by improved pricing. On a constant currency basis, the gross profit rate would have been slightly positive despite the negative mix impact, or the higher orthodontic sales.

SG&A expenses on an adjusted basis were $276.2 million, essentially flat, or 39.3% of sales ex-precious metals in the fourth quarter 2012, versus 40.6% in the prior year's fourth quarter. SG&A expenses as a percentage of sales improved as we realized some expense synergies from our acquisition integration, and as sales increased in our ortho business, which was helped to offset or better leverage our overall SG&A expenses. Operating margins based on sales, excluding precious metals, on an adjusted basis were 17.1% in the fourth quarter compared to 16% last year in the same period. Net interest and other expense in the fourth quarter on a reported basis was $11.1 million, compared to $14.6 million last year in the fourth quarter. This reduction in expense resulted primarily from lower net interest expense as we continued to pay down the debt from our recent acquisitions.

Our reported tax rate for the fourth quarter was a negative 46%. And is not really meaningful, as there are significant tax adjustments reflected in the rate. The positive tax benefit booked in our fourth quarter results was a result of significant efforts by our tax team. We recently finalized a global tax structure and legal entity integration after our recent acquisition to support our broader international business. This structure helps to minimize future tax impacts and allows efficient repatriation of future cash flows. On an adjusted basis, our operating tax rate for this quarter was approximately 24.3%, or 2.3 percentage points higher than last year in the quarter and ended the year at 23.4% compared to 22.8% last year. The tax rate was slightly worse than last year. However, it is expected to improve again in 2013 as we benefit from our tax restructuring efforts, and reestablish tax benefits that became effective after the first of the year. We believe that a tax rate of approximately 23% or better is reasonable when looking at 2013, including an ability to efficiently utilize more of our foreign-generated cash flow.

Net income attributable to DENTSPLY International in the fourth quarter of 2012 on an as-reported basis was $126.8 million, or $0.88 per diluted share compared to $40.6 million, or $0.28 per diluted share, in the fourth quarter of 2011. These results include a number of non-GAAP items, primarily including a significant tax benefit associated with our legal entity restructuring efforts, amortization and costs associated with restructuring and recent acquisitions. On an adjusted basis, earnings were $81.4 million, or $0.56 per diluted share, in the fourth quarter of 2012 compared to $72.6 million, or $0.51 per diluted share, in the fourth quarter of 2011. Net income attributable to DENTSPLY International in 2012 for the full year was $314.2 million, or $2.18 per diluted share, and for the 2011 base was $244.5 million, or $1.70 per diluted share. Net income attributable to DENTSPLY International on an adjusted basis for the years ending 2012 and 2011 were $319.2 million and $290.9 million, respectively. This represents earnings of $2.22 per diluted share for 2012, compared to $2.03 in 2011, which was an increase of 9.4% for the year.

Cash flow from operating activities in 2012 was approximately $367 million, compared to $393 million in 2011. Inventories increased this year to support the rebuilding of inventory for our orthodontic business. However, cash flow from operating activities increased approximately 21% in the fourth quarter compared to the fourth quarter of 2011. As planned, both our inventory days and accounts receivable days improved from the third-quarter levels. Inventory days were 106 at the end of 2012, compared to 100 days at the end of 2011. The increase in number of days is primarily associated with the building of orthodontic product inventory, as that supply was reestablished during the year. Accounts Receivable days were 53 at the end of the year, compared to 52 days at the end of 2011. Capital expenditures for the year were $92 million, with depreciation and amortization of approximately $136 million. At the end of 2012, we had $80 million in cash and short-term investments and total debt was $1.52 billion. And net debt has been reduced to $1.44 billion. In 2012, we repurchased approximately $39 million of our stock, or approximately 1 million shares, at an average price of approximately $39. Based on the Company's authorization to maintain up to 34 million shares of treasury stock, we now have approximately 14 million shares available for repurchase.

We believe a reasonably stable global economy in 2013 should allow the global dental market to once again show modest growth for the year. With a significant international footprint, our sales and earnings are impacted by changes in foreign exchange rates. The currencies which have the biggest impact on our sales for us are the European currencies, especially the euro. Our purchases and cost structures are most impacted by the euro, Swiss franc and Swedish krona, and the Japanese yen. We utilize systematic cash flow hedges on certain transactions to help minimize the volatility that these FX fluctuations may otherwise have on our business. This helps to dampen the volatility between years. For 2013, we expect a slight 1 to 2 percentage point top-line benefit from current foreign exchange rates. However, we expect a slightly negative impact on earnings per share in 2013 as our transaction hedges are expected to be less favorable this year.

Finally, as Bret stated, we are excited about our new product portfolio. And we are confident in our ability to outperform the market. Despite the continued softness in the broader global economy, we are establishing 2013 earnings per share guidance at $2.38 to $2.48 per share on an adjusted basis. Also it is important to note that the first quarter of 2013 will have two fewer selling days than in the first quarter of 2012, which will have a negative impact on the sales and earnings comparison in the quarter. However, an additional selling day in each of the following two quarters should offset this impact in our full-year results.

That concludes our prepared remarks. Thanks for your support. And we would be glad to answer any questions that you may have at this time.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Steve Beuchaw, Morgan Stanley.

Steve Beuchaw - *Morgan Stanley - Analyst*

First, just one clarification. Bill, I really appreciate the comment that you made where you tried to help us net out the impacts of inventory changes, the extra selling day and Sandy in the fourth quarter. Am I right that those three factors in total were a positive 50 to 100 basis point impacts on revenue, is that right?

Bill Jellison - *DENTSPLY International Inc. - SVP, CFO*

That's right. That's our best estimate. It's difficult with all of the different moving pieces but that should be an approximate range of that.

Steve Beuchaw - *Morgan Stanley - Analyst*

And then I would think that would be disproportionately concentrated in the US. Is that also right?

Bill Jellison - *DENTSPLY International Inc. - SVP, CFO*

A little bit more in the US, that's correct.

Steve Beuchaw - *Morgan Stanley - Analyst*

Okay, great. I really appreciate that. And then I wonder, just thinking about where we are in the calendar here looking out on 2013, if you could spend a little bit of time -- this would be for Bret -- on a couple of markets that we think about a lot. And just talk to us about what you're expecting for a couple of these markets in particular. Number one would be dental implants. And then number two would be Europe, particularly in the north. These are markets that seem pretty stable here. Is that how you're thinking about them going into 2013? Thanks so much.

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

Sure, Steve. With respect to Europe obviously, our results have been very stable in Europe for the last three years. Really, since the end of the recession, we've generated positive internal growth, excluding the orthodontics disruption, in each of those quarters. We think we've been well above market in each of those quarters. And, for instance, as we look at our results this quarter by country, we see we had positive internal growth in every country in Europe except for two countries in the south. So the indications we get from our results tell us that that market is stable. It's still a growing market. It's not robust but it's one that's growing across the entire region. It has some places where there's still very difficult economic situations affecting the dental market, but overall the European market appears stable and appears to be growing slightly.

Dental implants, we know, now that all but one of the premium implant companies have reported, we think we're probably, depending upon where this last company comes out, we're probably 2 to 3 percentage points better than the market on average. Although the market is probably declining slightly at this point. We're flattish at this point. I think 2013 can be a year this market could be flat to gross low single digits. I don't see it getting a lot better than that in the short-term. And that's taken into account in our planning here.

Steve Beuchaw - *Morgan Stanley - Analyst*

Okay, great. Thanks again, everyone.

Operator

John Kreger, William Blair.

John Kreger - *William Blair & Company - Analyst*

Just hoping you might be able to expand a little bit more on your expectations for '13. What price assumptions are you assuming in your guidance? And just curious, if the med-tech impact had much of an impact on that.

Bill Jellison - *DENTSPLY International Inc. - SVP, CFO*

Sure. I think that two things there. One, as you're aware, we typically get somewhere between 1 and 2 percentage points normal price. I'd say that this year, from a broader basis, we are expecting, obviously, higher than that, partly because of the med-tech tax that's out there. And we wanted to make sure that we're helping to offset as much of that as we can through this process. So I think that you should expect that obviously the price increases for the overall year are going to be north of 2% instead of under 2% this year.

John Kreger - *William Blair & Company - Analyst*

Great, thanks. And then a follow-up. What is your view on how the preventive and restorative market is doing relative to your specialty markets? And curious what you think the orthodontic market is doing in total at this point?

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

I'm going to comment on preventive restorative and let Chris comment on orthodontics. Looking at our results, those markets are mid single-digit growth markets. Let's say low to mid single-digit growth markets, depending on the specific product category in the US. And probably low single-digit markets for us, maybe closer to even less than that, but still positive in Europe. So those markets which are just the everyday dentistry type markets I think are good indicators of traffic flow in the dental operatory. And they appear to be stable to growing, a little bit faster in the US, a little bit slower in Europe at this point. Chris?

Chris Clark - *DENTSPLY International Inc. - President, COO*

On the orthodontics side, John I would say the market -- we're probably not the greatest barometer right now in terms of reading the market, obviously, because our results are skewed based on the recovery. So I think that would be tough to look at our numbers and project that back on the market. What I would say is, I think it's a pretty competitive market situation right now with not a whole lot of growth. I would say flat to maybe up slightly in terms of base growth. And obviously we're doing better than that as we're going through the recovery.

John Kreger - *William Blair & Company - Analyst*

And Chris, have your thoughts changed at all in your ability to recapture the lost share after the tsunami in Japan?

Chris Clark - *DENTSPLY International Inc. - President, COO*

I think we're pretty consistent with what we said, John, earlier. I think at this point we think we probably gained back about one-third of what we had lost. We're now focused on the next one-third that is really a multi-year effort in terms of slugging it out at the street level. Those customers have gone to competitors, and those competitors aren't going to give those up easily. And the remaining third we may never get back. And obviously, over time, we need to look to offset that with other competitive gains of other competitive users. So I think that we're pretty much on track relative to what we said. But I think we're now reaching the stage where it's tough sledding at the street level. And, again, our team is up for it, but there's still a lot of work to do.

John Kreger - *William Blair & Company - Analyst*

Great, thank you.

Operator

Jeff Johnson, Robert W. Baird.

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

Bret, I was hoping I could start with you, just on your market comments around US, Europe and that for 2013. We have seen, just in the last few days, some large med-tech companies talk about incremental softening in the European market to start this year. In the US, some of the retail data with payroll tax increases and that starting to soften up a little bit late January or early February. But you still feel comfortable, it sounds like, that markets are somewhat stable at this point, and dental can still grow this year across most of those major markets?

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

Yes. To me, it's a little too early to be trying to read the tea leaves on what's happened, for instance, the last five, six weeks. The markets to us do appear to be stable in the US and Europe. A little bit more robust in the US than Europe but stable in both markets overall. I think Bill had some comments here this morning about the way the calendar falls in the first quarter here. And I've seen two or three of our competitors comment on this, as well. And that is, that we're going to end up with two less shipping days this quarter versus a year ago. Thus I think when you see results come out for the first quarter, across the board they are going to be a little bit weaker for the quarter, and then they'll be made up later in the year. But as far as the overall markets go, to us they appear to be stable with no meaningful changes at this point.

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

All right, that's helpful. Thanks. And, Bill, a question for you just on FX. Since the AstraTech deal, it seems like most of your top-line impact, if it's 1% to 2% this year positive. Historically or over the last year or two we think that mainly flows through to the bottom line, then, at anywhere from 50% to 100%. This year it's turning around exactly the opposite and going to be a drag, and I just don't quite understand why that is.

Bill Jellison - *DENTSPLY International Inc. - SVP, CFO*

Sure. Just to go back and talk about what we had stated when we first did the transaction. We did a more consistent FX related transaction-related hedging program where we're layering in hedges each and every month, that take us out for the next 18 months. And as you look at the impact, the whole purpose of that hedging process is to ultimately dampen what the otherwise impact it would be on FX. So if you take 2012, for example, the top line was impacted by, let's say, 3.8, 4 percentage points. If you took that on our total earnings, the impact last year would have been more in the $0.08 or $0.09 related impact. Our FX related hedging helped dampen that impact, but we now don't have that same level of benefit of those hedges in 2013. So in essence the impact of last year's FX movements actually are spread, in essence, over that two-year period. So we aren't getting the full positive benefit on the bottom line this year because of that positive benefit we had on the FX hedges in 2012.

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

Okay. And just to clarify, you actually said it would be a negative. So we should think of EPS being flat, if not dragged down a little bit, by currency this year, even though the top line will be a slightly positive impact?

Bill Jellison - *DENTSPLY International Inc. - SVP, CFO*

Yes. Based on where rates are at right now, something in that flat to a $0.02 negative impact is what we would be expecting.

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

All right, fair enough. And then, Chris, just last question for you, just on new products. We've heard off and on from rumors about potentially you guys getting a little more serious on the digital impression side. And have also heard some progress has been made on the cobalt chrome side, the millable cobalt chrome side, which to me would be a sizeable potential new product this year. So wondering if you can comment at all, or if you're willing to comment at all on either of those.

Chris Clark - *DENTSPLY International Inc. - President, COO*

I guess what I'd say, Jeff, is we've got launches obviously coming out throughout the year. We've got some coming up, obviously, this week at Chicago. I'm not going to comment on either of those in the short-term. What I would say is certainly on the cobalt chrome space, that we're very interested. We're interested in both spaces but the cobalt chrome you'll probably hear from us before the other. And, again, I think that we're excited about what we've got coming potentially down that path. And you'll hear from us probably in another call or so.

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

All right, thanks guys.

Operator

Robert Jones with Goldman Sachs.

Robert Jones - *Goldman Sachs - Analyst*

It sounds like you guys have regained about one-third of the lost share in ortho, which I believe was the portion that you had previously said you thought you'd recapture pretty quickly. Just as far as we look forward, how should we be thinking about, year by year, how you guys are planning on or thinking about recapturing that remaining lost share within ortho?

Chris Clark - *DENTSPLY International Inc. - President, COO*

Robert, it's Chris. I would say, again, the first third I don't want to say it was easy, but bottom line is, those were probably among our more loyal customers. Certainly the first group coming back for the few quarters ago, as you had product, bottom line, once we had product they were very interested in coming back. Now, obviously, most recently we're having to get to that next tier where we have to work a little bit harder for it. And, yes, that's pretty consistent with what we said we thought we would see.

This next third, I would probably say that's going to take three years-ish. It's a multi-year effort. And, again, we're having to slug it out against competitors that have done what they can to try to load up end users and certainly offer inducements to try to keep those customers. So they're former customers of ours. They are positively predisposed towards our line, but in the short term they've been, obviously, taken care of by somebody else. And we're going to fight it out. And, again, I'm confident over time we'll be successful with that, but that's not going to be quite as quick. Obviously as we go against the next couple quarters, we have a little bit of a lower base. Again, the trajectory improved on orthodontics throughout last year. But I think the sequential trajectory probably is not going to be as significant as what we've been seeing the last few quarters.

Robert Jones - *Goldman Sachs - Analyst*

That's really helpful. And then if I could, just one other inorganic factor, if you will, as we try to think about our forecast. I know AstraTech and the synergy guidance, I think you guys have stopped updating it. But even just directionally I know year one you had originally outlined $0.12 to $0.17. Curious just if you'd be willing to share how you compared to that. I know year three initially you were thinking somewhere in the $0.30 to $0.40 range. I was just wondering, even if it was more qualitative, just how you guys feel you're tracking relative to those synergies.

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

Sure, Bob. I'll try to give you some high level comments there. With respect to the original first-year guidance, we've already confirmed that we were within that range. And felt pretty good about the transaction. The synergy estimates that we had, and that are using internally, look solid, and we're going after those synergies so I think we'll get further earnings accretion from that. The thing that's probably a disappointment to us is the global premium dental implant market today is probably flat to slightly down. At the time of the acquisition we probably would have thought it would be growing mid single digits at this point. So that puts a little bit of weight on the third-year earnings accretion target. However, that's why we used a range, because we knew we wouldn't be correct in all of the assumptions. And at this point, we're not going to confirm or update that guidance anymore but I'll say that, absent the slowness in the market, we feel pretty good about the targets that we set for ourselves at the time of the transaction.

Robert Jones - *Goldman Sachs - Analyst*

That's helpful, Bret, thank you.

Operator

Glen Santangelo with Credit Suisse.

Glen Santangelo - *Credit Suisse - Analyst*

Bret, maybe I could just follow-up on that last question. So, does it sound like you think Astra is going to be a slight benefit next year? Because what I'm trying to do is I'm trying to reconcile all the components that you baked into your 2013 guidance. It sounds like currency is negligible. Ortho, Bill, I don't know if you're willing to quantify in some way what you think that incremental benefit in '13 could be. Because if I triangulate all these different components, it feels like, Bret, you're saying that we're still expecting that low single, maybe approaching mid single-digit growth globally in the dental business. Is that a fair characterization?

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

Glen, we don't give guidance on internal growth for the year. We did give a little bit of insight here on the first quarter because the calendar is affecting us so much. However, we've been growing 3% to 4% in this environment for some time. We commented earlier we see the markets as stable at this point. We don't see any major disruptions to the markets. And I think you should use that in your comments or in your modeling to the extent you see fit. With respect to AstraTech, because even in a no-growth market we have synergies to go after. We think that AstraTech can continue to be earnings accretive, as we improve the cost structure and so forth in 2013. Even without implant market growth. So I don't know if that helps you or not, but that's the guidance we would be willing to give at this point.

Glen Santangelo - *Credit Suisse - Analyst*

That's fine. And, so, maybe I could just follow up on that. How should we think about margins in 2013? Assuming for a second that revenue growth stays in this approximate range, while margins have been stable the past couple quarters, obviously down a little bit from what we've seen historically. And I'm wondering, how does the Company, absent any major mix shift, how can the Company expand its margins in this current revenue environment? Are there levers you can pull to do that?

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

There are. New product innovation is the most important one because we usually get a margin lift from new product introductions that come out at higher prices. So I think that's one. Number two is, we're looking at the cost structure to make sure that we got the most efficient cost structure possible. That will help. Two things that go against us here. Early in the year, when we're short those two shipping days, that will be harmful to operating margins, of course, in the first quarter. And as ortho -- just as an aside -- as ortho becomes a larger percent of the portfolio, again, ortho carried a little bit lower margins than our other dental consumables because we aren't the manufacturer. So that's a small headwind.

The last thing I'll throw in here is that the medical device tax, although it's boosting our top line a little bit, we're essentially collecting tax and giving it to the government. So there's no income at the operating margin line, even though revenue is higher. So that puts a little bit of pressure on operating margins on a percentage basis. All told, though, we've said before, and we're willing to live by and state again here, that we're looking to return to a more normal operating margin improvement pattern year over year, as we saw pre-recession, and pre the orthodontics event in 2011. So our guidance there, as we look for, I think it's 20 to 40 basis points improvement per year. And we're reestablishing those expectations now with the new baseline that we have.

Glen Santangelo - *Credit Suisse - Analyst*

I appreciate that, Bret. Maybe if I could just squeeze one last one in. I'm curious. In the press release you stated that you feel like the balance sheet is in a better place now, and maybe the Company can re-engage in some capital deployment priorities. And you specifically called out acquisitions. So could you maybe give us a sense for maybe what may be specific areas of interest for you looking to expand the product portfolio. Or is it more expanding the geographic presence?

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

Our acquisition program looks to both breadth of the portfolio and the scope, the geographic scope of the portfolio. So we target companies for technology, for brands, and for geographic reach. In the latter case, usually sales and marketing reach. We're not ready to announce any acquisitions at this point. But the acquisitions that we do over the next couple years, I think, will be in that category. And, as you know, in dentistry most transactions are small. So I would expect most to be in the tuck-under zip code with respect to magnitude. But we do have acquisitions in our pipeline that we're working on. Timing is always difficult to predict. But I think that with the balance sheet improving, as it's going to continue to improve here in 2013, or we expect it to improve in 2013, we're going to be in a much better position to start doing those transactions again this year.

Glen Santangelo - *Credit Suisse - Analyst*

Okay, thank you very much.

Operator

Jason Rogers with Great Lakes Review.

Jason Rogers - *Great Lakes Review - Analyst*

Could you give a comparison of the internal growth specialties versus consumables versus lab for the quarter?

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

Yes, I can give you that at a high level here. For the fourth quarter, consumables were up mid single digits. Specialties were up high single digits. Lab was slightly negative, primarily because of the decline in precious metal alloys in Europe. And non-dental was up mid single digits.

Jason Rogers - *Great Lakes Review - Analyst*

Okay. And would you provide your CapEx estimate for 2013?

Bill Jellison - *DENTSPLY International Inc. - SVP, CFO*

I think that going into 2012, we actually we're expecting that we were going to be spending higher capital expenditures on a couple different programs. Some of those got kicked out a little bit from a actual spend perspective. But as we look at 2013, you should expect that our overall CapEx is more in the range of what were looking at for last year, which is probably in the $120 million, $130 million range.

Jason Rogers - *Great Lakes Review - Analyst*

Okay. And then looking at the catheter business, I just wanted to get some commentary on how that's performing.

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

The catheter business, which we've renamed and rebranded, Wellspect Health Care -- we've got it set up as a separate division in the Company now, with separate resources and focus, et cetera -- is performing very well. Very strong in the US, strong in Europe although the market there is not quite as robust as it is in the US. And our performance there has been driven off of new innovation. We have a new female catheter that was launched, I think, about 18 months ago.

Chris Clark - *DENTSPLY International Inc. - President, COO*

In 2011.

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

2011. That has been growing rapidly. And just last month, January 2013, we launched a new male catheter. And early indications are that that's a really strong product, as well. The early feedback from customers is that we're going to have good uptake on that, as well. So the business is performing well. It's meeting our expectations and it looks to be a good part of our portfolio.

Jason Rogers - *Great Lakes Review - Analyst*

And then, finally, you talked about strength in emerging markets. Are you seeing any strength in the specialties category, or is it mainly in just everyday dental products?

Chris Clark - *DENTSPLY International Inc. - President, COO*

We're seeing pretty solid strength, really, across the various categories. Obviously that's going to depend a little bit based on the markets. There's 70, 80 countries here so it's hard to generalize. But I would categorize that we're pleased with the performance in the emerging markets on specialties, as well as on consumables. And also, to a degree, on labs. So, again, I think that it's relatively broad.

Jason Rogers - *Great Lakes Review - Analyst*

Thank you.

Operator

Jon Block, Stifel Nicolaus.

Jon Block - *Stifel Nicolaus - Analyst*

Maybe just a first one, another follow-up on orthodontics, if you would. Can you talk about just how it's going to be staged throughout the year, maybe more from an earnings perspective? In other words, I know you fought back on that first one-third. But do you still think it's going to accretive by about $0.05 '13 versus '12? And then, Bill, would that primarily show up in Q1 or Q2 because of the relaunch that you had in the back half of 2012? Thanks.

Bill Jellison - *DENTSPLY International Inc. - SVP, CFO*

Yes, I think from an ortho perspective we would still expect to see some improvement in 2013. I think the first quarter, as you mentioned, is obviously easier because it was negatively impacted still last year in the ortho business. However, keep in mind that you also have the two lower days in the first Q, so that's going to take a chunk of that away, as well, too, as least within that quarter. So we are expecting some improvement but probably not to the level, obviously, that we accomplished in 2012 with that business.

Jon Block - *Stifel Nicolaus - Analyst*

Okay. And just as a follow-up there, do you think a $0.05 benefit '13 versus '12 is a good number to use? Or is that a little bit too aggressive?

Bill Jellison - *DENTSPLY International Inc. - SVP, CFO*

I'd say that that's too rich.

Jon Block - *Stifel Nicolaus - Analyst*

Okay. And then second, just on capital allocation, you've done a great job paying down debt. It seems like your leverage is right around 2.5. Is debt pay down still the main priority, you'd say, but you've got more flexibility on acquisitions? And also, should we expect share count, if you would, instead of just staying flat, that maybe you'll actually take that down on an absolute basis '13 versus '12?

Bill Jellison - *DENTSPLY International Inc. - SVP, CFO*

I think with respect to priorities, we are rebalancing them a bit here. Debt reduction still is of importance to us. And I think you'll see us allocate some of the cash flow towards debt repurchase. But also this year, I think you'll see more go through acquisitions and some through share repurchases also. What we've said over time is we want to keep the share count neutral, at least from exercises of options and so forth. We haven't really caught up with that since we did the acquisition. We do have a large share buyback authorization available to us. I don't want to predict an exact amount how many shares we buy back, because I don't know, but I think that will be an element of the capital allocation this year.

Jon Block - *Stifel Nicolaus - Analyst*

Okay. And then maybe just the last one, Bret. Your long-term thoughts on the implant market, maybe where it is today relative to where it was at the time of the Astra acquisition. And, of course, you guys have done a great job and you're taking share in a more modest market. But has anything changed? I don't have the wording in front of me back at the Astra timing, but I think you were talking about maybe even a low double-digit market. Do you still think that's attainable long term? Or has some stuff with what's been going on in Japan reined in the long-term expectations? Thanks guys.

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

That's a complex question. I think, back at the time of the acquisition -- I don't have the wording in front of me, either -- but I think we said we thought it could be a high single-digit market again. And probably a mid single-digit market in the near term. And, in fact, immediately after the acquisition, for a year or maybe three quarters, it did run mid single digits. And today in the United States it's running in that range, I would say, as well. Probably mid to better even a little bit better than mid single digits for our market. Longer term, I think that dental implants are still well under-penetrated in the market. It's the best solution for a difficult ailment. It doesn't destroy adjacent teeth, et cetera. And so I think that over the next couple decades dental implant therapy is going to be a major part of the restorative business in global markets, really, in all geographic markets. So I think it's an area we needed to participate in, in a significant meaningful way. And we believe we are now positioned to do that with a very fine portfolio of products and sales reach.

Jon Block - *Stifel Nicolaus - Analyst*

Thanks for your help, guys.

Operator

Yi-Dan Wang, Deutsche Bank.

Yi-Dan Wang - *Deutsche Bank - Analyst*

I joined your call a bit later so apologies if you've covered these already. I've got a couple questions. First of all, on the dental implant business. Can you comment where DENTSPLY's organic sales growth were in the US and ex-US in the fourth quarter. And to what extent has the integration of AstraTech impacted those numbers? And how should we think about this impact in 2013? And then the second question is, how big is DENTSPLY's CAD/CAM business now? And how has it performed in 2012? And what are your expectations for that in 2013? And where is DENTSPLY in opening up its CAD/CAM platform? That's all, thank you.

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

I'm not sure I got all those down so you guys will have to help me here. But with respect to dental implants in the fourth quarter, we were slightly negative, which was entirely attributable to Japan. If Japan hadn't been in the mix we would have been slightly positive in the quarter. We haven't seen all of the results from all of the competitors. I think there's one that's still outstanding. But from the ones we have seen, that would put us, I don't know, 300 basis points or so, maybe 400 basis points, faster than the others, or in better shape than the others.

With respect to geographic reach, we don't give that for each of our businesses. But I think it's fair to say that the US was much stronger than Europe. And in the rest of world category, Japan was the weakest, and the other countries within the rest of world category were stronger. With respect to our CAD/CAM business, at DENTSPLY it's pretty complex because we have CAD/CAM technologies in our implant business. We've got bars and bridges. We've got CAD/CAM technology used in customized drill guides. We've got CAD/CAM technology used in our prosthetics business, both for sale, meaning to labs, but also in centralized manufacturing. We have not rolled that up and disclosed that to anyone, but I think you should assume that our CAD/CAM business is doing well. I'm not trying to hide the result. It's doing very well. But for us it's a complex business across numerous of our franchises, and we've not rolled that up and disclosed that to people.

Yi-Dan Wang - *Deutsche Bank - Analyst*

Okay. So, just to cover some of the ones that I asked, the other ones I asked. In terms of your dental implant performance, how has the integration of AstraTech impacted those numbers? And how should we think about that impact in 2013?

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

I think, integrating a business, it's always difficult to tell what the impact is. What I can say is that we've gone through a year we're we rearranged all of the subsidiaries. We merged all of the sales forces. We took the reps out of the field to train them on the products from the other company. We've changed their bosses, changed their territories, many times changed their customer base. And we're growing, we think, 300 to 400 basis points faster than market. I don't know how much of that is due to the integration and how much of that is due to good execution.

Yi-Dan Wang - *Deutsche Bank - Analyst*

It sounds like the execution is very good so far. And you said that you will complete that integration at the end of Q1. So would you say that if there were disruptions in your business we would have seen it, seen the worst of it already? Or we need to keep an eye out on that?

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

What's going to be done by the end of Q1 is the merger of all of the country organizations. Which is a process that is -- well, it's the process that's most disruptive. What you'll see going forward is us going after cost and cost synergies and so forth. At the same time using the sales forces that are now merged and cross-trained on the products to generate sales synergies. I'm not real comfortable with characterizing what's more disruptive, but I would think what we've been through would be the most disruptive part of the integration.

Yi-Dan Wang - *Deutsche Bank - Analyst*

Okay. And just on the CAD/CAM business, are you able to talk about how open your CAD/CAM systems are today? It seems more of your competitors are pursuing that option.

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

Almost all of our CAD/CAM businesses and processes are open systems. There's one system, particularly in Europe, that's a closed system, but it's not a huge part of the business.

Yi-Dan Wang - *Deutsche Bank - Analyst*

Okay, thank you very much.

Operator

At this time we have no questions in the queue. I will now turn the conference back over to Derek Leckow for any closing or additional remarks.

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

Thank you, everyone. That concludes our conference call today. We thank you for your interest in DENTSPLY. If you have any follow-up questions please contact Investor Relations. Goodbye.

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

Thank you.

Operator

That does conclude today's conference call. Thank you for your participation.
