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XRAY - Q4 2015 DENTSPLY International Inc Earnings Call

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OVERVIEW:

XRAY reported 2015 sales decline excluding precious metals of 7.6% YoverY, adjusted net earnings of $373m, and adjusted diluted EPS of $2.62. 4Q15 sales excluding PM declined 6.5% YoverY and as-reported net income attributable to XRAY was $58.5m, or $0.41 per diluted share.

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PRESENTATION

Operator

Good day and welcome to the DENTSPLY International fourth-quarter year-end 2015 earnings conference 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. Sir, you may begin.

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

Thank you, Vicki. Good day, everyone, thank you for joining us to discuss DENTSPLY international's fourth-quarter and FY15 results. I'm joined by Bret Wise, DENTSPLY's Chairman and Chief Executive Officer; and Chris Clark, our President and Chief Financial Officer; and Jim Mosch, our Executive Vice President and Chief Operating Officer.

I hope you had a chance to review our press release issued earlier this morning. A copy of that release and a set of supplemental slides and information relating to non-GAAP financials are available for download in the investor relations section of our website, www.DENTSPLY.com, under the heading quarterly results.

Of course, the safe harbor language and US GAAP reconciliation contained in today's press release also pertain to this conference call. We may make forward-looking statements involving risks and uncertainties. These should be considered in conjunction with the risk factors and uncertainties that are described in the release and in our SEC filings.

It is possible that actual results may differ materially from the forward-looking statements that we may make today. The Company undertakes no obligation to update or revise any forward-looking statements to reflect events or circumstances that arise after the date of this call.

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, thank you for joining us on our year-end call. I will start with a few overview comments and then I've asked Jim to comment on our new product pipeline and our growth investments, those growth investments being funded by our efficiency program. And Chris will close with a deeper dive into the financial results.

Before we start, I have a few comments on our historic merger with Sirona Dental Systems, which was first announced back on September 15 last year. As of today, we have received approval from both sets of shareholders, from the US antitrust authorities and also from the Ukraine. We still have a couple of hurdles to clear, including the EU.

We continue to believe that the merger is on track and will close this quarter. Our team remains very enthusiastic about the possibilities presented by the merger and we're looking forward to clearing these last hurdles and completing the transaction.

Beyond this brief update, today's call be focused on the results of the DENTSPLY business standalone. Also, as the merger is pending we will not be providing 2016 guidance at this time but rather we will provide that after the close of the transaction in due course.

Starting with our markets, this quarter the US market continued the trends we saw earlier in the year with consistent growth in demand. It is clear the US dentists continue to invest in their practice and remain highly interested in new and innovative ways to improve patient care and their work flows.

In the EU we continue to see mixed market development. Overall we saw some slowing, particularly in the North, while there was some improvement in Southern Europe in the quarter.

As far as the rest of world, currency is creating some headwinds, particularly for imported products and the many markets. However for the most part, we see steady demand trends on a local level.

Moving on to our results for the fourth quarter, top-line growth was once again hit pretty hard by the currency devaluation around the globe. Total growth XPM was down 6.5% on an 8% negative currency impact. Constant-currency growth was up 1.5%, of which 1% was internal growth and 0.5% was net acquisitions. And we had both acquisitions and divestitures in that number, none of which are individually significant.

Regionally, the US was up 3.1%, Europe was down 2.1% and rest of world was up 4.6%. The global internal growth rate disclosed here includes about a 1% drag or headwind from the discontinued products that we discussed on our last call.

In the US the strongest categories where chair-side consumables, dental specialties and our healthcare business, while lab was negative in the mid to high single-digits. The discontinued products reduced the US growth rate by 120 basis points in the quarter and of course that's in the lab segment that I just mentioned. Both the US and European growth rates were impacted by the discontinued products in the quarter and I will let Chris provide you more details on that.

In Europe we came up against a strong baseline where we grew almost 4% last year in the fourth quarter. In that region, each of chair-side consumables, dental specialties and our other category which includes medical, were essentially flat while lab was down double-digits. And again, that is driven heavily by the discontinued products in that segment.

The other factor that continues to hurt us here is CIS which was down high single-digits in the quarter. The currency devaluation happening in that region, as well as the economic situation in the CIS, continues to negatively impact the dental market and our results, as noted here. Rest of world, as mentioned, was up mid single-digits internally as led by Pacific rim, Middle East, Australia and Latin America.

Staying with the fourth-quarter, operating margin expanded 220 basis points on an adjusted basis in the quarter. And adjusted EPS was up 8%, despite a net 8% drag on the bottom line from currency. So currency-neutral, it would have been much stronger of course.

This brought us to adjusted earnings for all of 2015 to $2.62, that's up 4.8%, or about 11% on a currency-neutral basis. This 2015 result's a couple cents above the high end of the range that we provided at the beginning of the year. And that is despite additional headwinds coming from currency as we move throughout the year.

Let's take a step back and look at these results in context. As you know, we've been very focused on improving the efficiency of our business over the past two years. In early 2014 we established a public target to attain a 20% operating margin by 2017 and that was off a 17.6% baseline at the time. In addition, we targeted improvements in asset turns and as a result meaningful improvement in ROIC.

In 2014 we boosted operating margins by 80 basis points to 18.4% and this year we boosted them another 180 basis points to 20.2%. For the full year 2015 we have achieved the target we had set out for 2017, only a couple years in advance of the target date.

At the same time, we were able to improve the asset turns, accelerate cash flow and grew our ROIC from the 8% range at the end of 2011 back firmly into our target zone of 12% to 15%, where we exited 2015. This improvement happened without a lot of leverage from market growth, particularly in the EU. This required a lot of hard work and creativity on the part of our employees and I want to thank them for all their efforts they put forth to accomplish this result.

We do feel pretty good about these results, although we acknowledge there has been some inconsistency on the top line, and in part that does reflect some distraction and some disruption from the global efficiency program that we have implemented. As we move into 2016 we're now implementing growth investments designed to accelerate internal growth.

These investments will be funded from further savings from the efficiency program which is now entering its third year. Of course, this is the exciting part of the program and our employees are highly engaged and energized by the opportunity to reinvest and grow at a faster pace on the top line.

Before passing the call on for additional remarks from Jim and Chris, I would like to add that our balance sheet is now in very good shape. In 2015 we effectively paid down another $240 million on a net debt basis. And our net debt to cap ratio is now in the 27% range and the leverage ratio is below 1.5 times. Said another way, I believe we are in very good shape to use our balance sheet more aggressively is we move forward.

Overall, we feel like we're in a very good place in which to build our future with Sirona. I would add that we are very excited and highly engaged in preparing for our future together with the Sirona employees and executive team. Our pending merger has very high potential and together we believe we can advance dentistry at a much faster pace.

From single-visit dentistry to new and improved package solutions and work flows, we truly believe that the new DENTSPLY Sirona will set the bar very high and be able to drive additional advancements for dentists and patients, increased opportunities for our employees and of course, provide a compelling value proposition for our shareholders.

With that, I would like to now turn the call over to Jim.

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

Thank you, Bret. I would like to provide an overview of our R&D efforts, update the status of the global efficiency initiative and outline the resulting reinvestments as part of this initiative. I will then turn it over to Chris Clark for the financial review.

From an R&D perspective, Q4 saw the launch of ceramics universal, a new universal composite with a unique SphereTEC filler technology. Also, the Midwest Tradition brought us high-speed hand piece, offering improved liability, power and noise reduction. And the new Cavitron Touch Ultrasonic Scaling Unit, providing a smaller footprint, digital user interface and improved ergonomics.

In addition, earlier endodontic launches of the X-Smart iQ and VDW Connect motor platform and the ProTaper Gold and WaveOne Gold endofiles continue to be registered and launched in expanded geographies. Each of these launches exceeded expectations and will carry momentum into 2016.

As we look at 2016, new product development will be an area of significant activity. In Q1 we will launch SureFil SDR Plus. This will been an advancement of SDR, the number-one bulk-fill global composite and will provide higher wear resistance, expanded shades and increased radial opacity.

We will also launch Calibra Ceram, the next generation specific for ceramic restorations, including DENTSPLY's Celtra CEREC block. In addition, our healthcare business will be entering a new category, bowel management, with the launch of Navina. Often patients that utilize self-catheterization due to spinal cord injuries, cancer therapies and MS also have bowel management issues which Navina will provide a unique solution.

As Bret outlined, we made excellent progress on our global efficiency program launch in 2014. During this time, operating margin has moved from 17.6% in 2013 to a 2015 full-year margin of 20.2%. This initiative has touched every area of the business, inclusive of procurement and supply chain, logistic consolidation, key business restructurings, formation of strategic business units, creation of single-country organizations and process and system alignment across most functions. We have made great progress but we have more to do and we will work in 2016 to meet the program objectives.

While the goal to improve operating margin was a mandate, equally important was the requirement to create funding for investments to drive long-term growth. This is an imperative in what has been a lower-growth dental market. We began these investments in Q3 of this year but they will accelerate as we enter the 2016 budget year.

In 2016 we will expand R&D investment to address a broader range of projects to drive long-term growth. Additional investment in clinical education programs will expand web, an e-learning-based program development, as well as program curriculum.

We have identified sales excellence as a key driver of share gain. Our investment will support development of global sales training programs, tool development and global CRM implementation.

Finally, we will invest in sales expansion on a global basis in both developed and emerging markets. In total, we will increase our global sales force by more than 5%, our largest single-year expansion in over a decade. We strongly believe that these investments will improve the top-line growth trajectory of the business while we seek to further expand the operating margin through the ongoing global efficiency initiatives.

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

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

Thank you, Jim, good morning, everyone. I would like to provide some detail on both our fourth-quarter and our full-year results by reviewing key elements of our income statement and also by providing some additional color on both our balance sheet and our cash flow.

For the fourth quarter sales, excluding precious metals, declined 6.5% compared to prior year, as internal growth of 100 basis points and net impact from acquisitions of 50 basis points were more than fully offset by unfavorable currency translation of 800 basis points. Reported internal growth of 1% was negatively impacted by approximately 110 basis points from product lines that have been discontinued in conjunction with our global efficiency program.

Gross profit rate on an adjusted basis in the fourth quarter was 58.9% of sales, excluding precious metals. That was an improvement of 150 basis points over prior year. This reflects favorable impacts of our global operational improvement efforts, currency and price.

SG&A expenses on an adjusted basis were 38.9% of sales, excluding precious metals, and that is down 70 basis points compared to our rate in the fourth quarter of 2014, also reflecting impacts of the global efficiency improvement initiative. Operating margin for the quarter improved by 220 basis points to 19.9% of sales, excluding precious metals, on an adjusted basis, compared to 17.7% in the fourth quarter of last year, reflecting the gross profit and the SG&A impacts that I just described.

Currency represented a headwind to earnings in the quarter of approximately $0.05 per share and was approximately a $0.015 worse than what we anticipated on the third-quarter earnings call. This reflects, in particular, the strengthening of the US dollar versus the euro and the Swedish krona over that period.

Our reported tax rate for the fourth quarter was 19.1% while our operating tax rate was 23.2%, which was 110 basis points above our fourth-quarter rate last year and about 40 basis points above our average operating tax rate for the first three quarters of 2015. This increase in the operating rate for the quarter was primarily the result of unfavorable geographic mix in the period.

Net income attributed to DENTSPLY International on an as-reported basis in the fourth quarter was $58.5 million or $0.41 per diluted share. That compares to $84.7 million or $0.59 per diluted share in the fourth quarter of 2014. These results include a number of items which are listed in the schedules in the release.

On an adjusted basis, net earnings were $92.6 million in the quarter, up nicely from $86.6 million in the prior-year quarter. Adjusted diluted EPS was $0.65, up 8% from $0.60 in last year's fourth quarter. On a constant currency basis, adjusted earnings per share increased by approximately 16% over last year and that reflects the significant impact of our global operating efficiency improvement initiatives. We're very pleased with this performance, as we mentioned we are now focusing on driving reinvestments into the growth initiatives that Jim described.

Transitioning now to the full year 2015, sales, excluding precious metals, declined by 7.6% compared to prior year. Its internal growth of 2% was offset by headwinds from currency translation of 950 basis points and net acquisitions divestitures of 10 basis points.

Internal growth included a headwind from discontinued products of approximately 50 basis points on a global basis. Internal growth for the year in the US was 3.1%, including the impact of approximately 75 basis points from discontinued products.

For the year, internal growth in Europe was negative 0.3% which included about 50 basis points from the discontinued products and a slightly larger headwind from the CIS region. Integral growth for 2015 in the rest of world region was 4.9%, reflecting internal growth of almost 8% in the emerging markets within that region. For the year, the US comprised 37% of our global sales while Europe represented 41% and the rest of world region, 22%.

Operating margin for the year improved by 180 basis to 20.2% of sales, excluding precious metals, on an adjusted basis and that compares to 18.4% last year. This reflects the full-year impact of our global efficiency program, as well as the currency benefit moving through our cash flow hedges.

On an adjusted basis, net earnings for the year increased to $373 million from $361 million in 2014. Adjusted earnings per share grew by 5% to $2.62 per diluted share in 2015 from $2.50 per diluted share in the prior year.

Our results for the year include the negative impact from currency of approximately $0.16 which is about $0.02 worse than what we anticipated in our initial guidance for the year. On a constant-currency basis, adjusted earnings per share for the year increased by approximately 11% over 2014. We're very pleased with this operating performance for the year.

Moving on to cash flow. We're also pleased with our operating cash flow for the year of $497.4 million, although this trailed 2014's record $560.4 million. Our cash flow performance reflects comparative headwinds versus prior year from four items: the timing of cash tax payments, payments associated with the restructuring plans, acquisition and merger-related costs and also the prepayment of the long-term bonds that we refinanced in December.

Free cash flow, defined as operating cash flow less capital expenditures, was $425 million for the year. And our free cash flow conversion was 169% of reported net income for the year.

As of year-end, inventory stood at 110 days which is down 5 days compared to September and down 3 days compared to December 2014. This was a pretty solid inventory performance for us in the quarter, although as a result, we had lower absorption in our plants and slightly higher cost in inventory as we come into the new year.

Account receivable days were 54 days at the end of December. That is down 6 days from prior quarter and then 1 day compared to December 2014.

Improvements in primary net working capital contributed $40 million to cash flow for the year and that is on top of $38 million contributed in 2014. As I've indicated on previous calls, we believe we can continue to make significant progress over time in the net working capital area as a result of the global efficiency improvement efforts.

Capital expenditures for the year totaled $72 million. Depreciation was $79 million for the year, while amortization was $44 million.

We did not execute any share buybacks during the fourth quarter. For the full year the Company repurchased approximately 2.1 million shares at an average price of $52.50 per share.

We ended 2015, as Bret mentioned, with a pristine balance sheet, as net debt to capital balanced at 27.1% at year-end compared to 32.3% at the end of 2014. Our leverage ratio of net debt to EBITDA now stands at 1.45 compared to 1.87 at year-end 2014. This obviously provides us tremendous flexibility as we move into 2016 on a combined basis with Sirona.

As we move into 2016, we are pleased with the operating performance of the business, particularly the traction from the efficiency program and now our ability to translate that into growth investments in addition to operating margin improvements. A headwind to keep in mind is currency. And while rates are fluctuating rapidly, at current rates we would anticipate a headwind to earnings of the DENTSPLY stand-alone business in 2016 of between 5% and 7%. Currency also flits from being a tailwind to operating margin rate in 2015 to becoming a headwind to that ratio in 2016.

While as Bret mentioned, we're not providing guidance at this time, I would state that we would expect positive year-on-year operating margin rate performance in 2016, despite the impacts from the currency and the growth reinvestments that were discussed earlier.

That completes our prepared remarks. We appreciate your support and we would now be glad to take any questions that you might have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

John Kreger, William Blair.

John Kreger - *William Blair & Company - Analyst*

Bret, could you talk a little bit more about how Brazil and China are doing, and maybe the more emerging markets in general? Are you seeing any signs of deterioration, given all the headlines we have been seeing?

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

Sure, John, be glad to do that. I would say that China remains stable and a growth market for us. We have not seen a lot of movement or weakening.

It seems like dentistry is still an emerging profession in China. The number of dental schools there that have opened is significant. The number of people entering the profession is significant. Dentistry is moving from a street-corner profession into a professional environment. So, the growth there is still good.

We saw continued growth in the quarter in Brazil as well, although we're watching that economy very closely. I would say, for us, that is a little bit higher risk than the Chinese situation at this point, although we continued to perform pretty well during this most recent quarter.

Emerging markets in general, I would say, are stable. The one exception of that is the CIS region, which is getting hit very hard on two sides. One is on the currency, and the other is on the economics coming from the dependency on oil. And that market continues to contract. Outside that region, I would say the emerging markets still look stable to us, and they are growing.

John Kreger - *William Blair & Company - Analyst*

Great, thank you, that's helpful.

The other question I had -- if you think about your organic growth in the quarter of 1% -- you talk a lot about new products. Could you break that growth down between, let's say, price, your legacy line, and what kind of contribution you think you got from new products in aggregate in the quarter?

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

I do not have that kind of analysis at my fingertips. I, frankly, don't think we do break it down that way.

I will say that on the quarters -- the growth for this quarter -- the disappointment for us was Europe, which was weaker than we had anticipated. As I stated in my opening comments, it was more northern Europe than southern Europe this time that disappointed us.

The other thing that's holding our growth rate back, of course, is those discontinued products in the lab sector. But as far as quantifying the amount coming from new products, I do not have anything that would allow me to give you that at this point.

Chris, you have any?

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

No, I don't.

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

I apologize for that, but that is not something we have at our fingertips.

John Kreger - *William Blair & Company - Analyst*

Okay, great, thank you.

Operator

Jeff Johnson, Robert Baird.

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

Bret, following up on your last point there, can you dig in at all and try to figure out why -- or try to give us some reasons why Europe was disappointing this quarter? It seems like, with some of the general consumables numbers out there from the distribution side, that market held in fairly well. So, any color you can provide there on Europe?

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

The two data points I have at this point are: one other very large manufacturer came out with what they said was low single-digit growth or close to zero growth. We don't know, but I am presuming that was impacted by Europe because I would think their US number would have been reasonably strong.

The data points I have is our number, that manufacturer's number, and then one distributor's number. I do not have any other distributors.

The one distributor that's out had very strong growth in their rest-of-world category. I don't know the breakdown between Europe and other regions, but if the implied European growth rate is close to what their rest-of-world growth rate was, then I would say that was clearly above market.

The other factor for us, of course, is CIS plays a pretty big role in our European number. And I am not sure that it plays much of a role in the other numbers that we have seen out there at this point.

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

I would also say our base was pretty strong that we're going up against.

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

True. We had a 4% baseline from the prior year.

That is the color I can give you on that, Jeff, at this time. I do view that market as flattish, for the most part. Outside the lab sector, we were flattish in most of our categories. I think it is just a slow market right now, or continues to be a slow market.

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

Understood. I know you guys do not guide to organic growth. You're obviously not providing guidance today, and you don't historically provide organic growth guidance anyway. But as Jim talks about some of the sales force investments that will be going in -- or, sorry, maybe that was Chris -- but as the discussion on the sales force investment, some of the other things, would it surprise you over the next 12 months, as a stand-alone Company, if organic growth did not accelerate to a certain extent and to a decent extent at this point?

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

I've got a couple comments on that, and I will pass it over to Jim. The region economically seems to be in a constant state of flux, and we see that from comments coming out of the EU in general.

I would say that the dialogue we have with our general managers in Europe is not negative; it is positive. They are still upbeat; they see opportunities to grow. I would like to see that come through our numbers as we move into next year.

Jim, I will let you comment on reinvestments and what impact you think --?

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

Jeff, I think one of the things we see, and I think one of the benefits of the global efficiency program, is the ability to make long-term investments. I think oftentimes you are in a situation where you are making investments within a year with the hopes of seeing a return in that year. Those investments, quite frankly, are difficult to find.

The global efficiency initiative has allowed us to make those longer-term investments like sales force, like clinical education programs. The reality is those things have a pretty significant ramp.

We don't see sales reps paying back in less than a year. Sometimes it takes time for them to get training up to speed. We can expect maybe a little bit of a lift, but overall it is an operating investment, certainly in this year. Obviously, the longer-term prospects are very good, and those are the kind of investments we need to make.

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

I will just add to that, that although they do not break even in the first year, you do start to see some sales growth come out of them, probably in the back half of their first year. It is just not sufficient enough to cover the fixed costs.

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

Correct.

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

Okay. My last question: Can you remind us the timing here of when some of the headwinds from these divested products start to fall off? I think it is mid-year; I just want to make sure as I'm building out the model, that is the accurate way to look at it.

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

Jeff, it's Chris. Some of those will come off mid-year. Some of those larger ones, actually, will start peeling off late in Q3. Again, they are kind of staggered. The anniversary basically, again, in that mid-year to late Q3 time frame at this stage in the game.

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

Very helpful, thank you.

Operator

Robert Jones, Goldman Sachs.

Nathan Rich - *Goldman Sachs - Analyst*

This is Nathan Rich on for Bob this morning. Sorry to go back to Europe, but just wanted to ask on the impact of discontinued products on Europe in the quarter specifically. I'm not sure if you guys gave that in the prepared remarks.

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

It was just over 100 basis points for the quarter.

Nathan Rich - *Goldman Sachs - Analyst*

Okay, great.

As a follow-up to that, I'd be interested to get your thoughts on whether you think the discontinued products in lab are having any residual or cross-over impact to other categories; wanted to know if this might also be weighing on growth?

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

I don't think it would have a lot of cross-over impact into other non-lab categories. But the restructuring we did in the lab category itself, including the discontinued products, could have, for a short period of time, some disruptive effect on other products in the lab category. But I do not see much possibility that it would stream over into the other areas of the Business.

Nathan Rich - *Goldman Sachs - Analyst*

Okay, thank you.

Operator

Steven Valiquette, UBS.

Steven Valiquette - *UBS - Analyst*

My question, just in relation to any upcoming 2016 guidance, you did mention previously that the Sirona merger would be modestly accretive in the first year. When you do give that guidance, I'm curious, should we still assume, first of all, that prior notion of modest accretion will still hold?

And do you know yet whether you will quantify it? Or will it just be that general qualitative commentary around the accretion? Trying to get a sense for what to expect when you guys do provide that. Thanks.

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

I do not have details on what will be provided at a later point. That will be based on agreement of the new management team and so forth. Timing of transaction close, and certainty of timing of transaction close, weighs on that question of whether you get accretive in the first year or not because it does take some time to ramp up the synergies.

At this point, I think it is fair to say we believe we are close to a close date. We believe the best pathway for us here for the combined management team would be to defer on the guidance and bring that out after we have closed in due course and had time to work together on it.

Steven Valiquette - *UBS - Analyst*

Okay. Then the other quick one: In the press release, you mention that you stated the business performing well fundamentally, and see opportunities to accelerate the top-line growth as you move into 2016. Curious how much of that is your own programs versus what seems to be a fairly evident trend now that the overall industry is enjoying some accelerated top-line growth. Is your comment there a combination of both of those? Curious to get your thoughts on that as well. Thanks.

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

That comment was meant to leverage off the fact that we are putting these reinvestments in now, which, as Jim noted, is probably the largest reinvestment for growth that we have had in this Company for some time, maybe close to a decade. That was more driven towards the fact that we have some options that are within our own control now to invest for growth. We would anticipate we will see some pick-up from that in a short period of time, certainly by the time we exit 2016.

Steven Valiquette - *UBS - Analyst*

Okay. I think just for the US market in particular, there have been a lot of other companies in the dental sector that have talked about an expectation of the acceleration of organic growth in 2016 just from the macro trends. Do you endorse that view right now for US specifically? Or do you not want to make that prediction right now?

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

I would not be surprised if that happened. The dentists today seem open to listen to new ways to invest in their practice, and to drive their own productivity or improve patient outcomes. You see that evidenced in the growth rates that the dental companies are experiencing in the US.

I would not be surprised to see it accelerate because of overall macro trends. Although when you read the Wall Street Journal, you wonder what the macro trends are really going to be for the next year.

Again, our comments were -- our view is, we're trying to improve our position, despite what the market does. These reinvestments, I think, will do just that -- allow us to grow above market, irrespective of what the macro trends are.

Steven Valiquette - *UBS - Analyst*

Okay, that's helpful, thanks.

Operator

(Operator Instructions)

Jon Block, Stifel.

Ethan Roth - *Stifel Nicolaus - Analyst*

This is Ethan Roth on for Jon Block.

I have two questions here; the first is on rest of world. I think we were a little bit surprised to see the internal growth not pick up from last quarter when you called out a temporary loss of production at a facility in China. I think we had that maybe about a 300-basis-point drag. Did that swing back the other way, and positively impact your growth this quarter, as some of the product went out the door?

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

No -- Ethan, it is Chris. I would say it was a pretty normal quarter for us, relative to China. We are back in production. We probably did lose some sales over that period of time, as customers probably went to other brands during that brief period we couldn't supply.

No, we didn't really expect, and nor did we see, I would say, an incremental snap back. We saw a return to what I would say to be pretty normal consumption.

If you look at the -- we'd be high 4%s in terms of internal growth rate for rest-of-world region. That is pretty much what that region has been doing on average over a reasonable period of time here.

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

Mid-single-digits, and we need to keep in mind that when we say rest of world, it includes many developed markets, not only emerging markets. So, there is a balance there between the two categories in that number.

Ethan Roth - *Stifel Nicolaus - Analyst*

Okay, great.

The second is more of a housekeeping question. I noticed acquisitions were actually a net benefit this quarter, whereas you've had some divestitures that were a drag to the first part of the year. Can you share with us any details on either what the acquisition was by product or in which geographies? Thanks.

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

Yes, we purchased a small prosthetics business in Latin America.

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

That was driven by one single acquisition that is now offsetting the divestitures, none of which are really material individually.

Ethan Roth - *Stifel Nicolaus - Analyst*

Great, thank you.

Operator

Steve Beuchaw, Morgan Stanley.

Michael Clerico - *Morgan Stanley - Analyst*

It is actually Michael Clerico on for Steve today.

Could you just quantify the benefit from currency on the operating margins this quarter, as well as what was the drag from CIS on European growth?

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

Relative to the quarter, about a fifth of the operating margin improvement was related to currency. The rest -- again, the significant amount came through as a result of global efficiency improvement program, as I noted.

I'm sorry, Michael, the second question?

Michael Clerico - *Morgan Stanley - Analyst*

Then the drag from CIS on the European growth rate?

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

For the quarter -- I'm sorry --

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

It looks like about 50 basis points, maybe.

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

50, 60 basis points -- in that range.

Michael Clerico - *Morgan Stanley - Analyst*

Got it. Okay, and then my second question: On working capital, you made some nice improvements. Could you talk a little bit about going forward on a stand-alone basis -- efforts to keep that improvement up and things that you are doing? If you could just comment on what the initiatives there are, and how you view that going forward?

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

Again, there is significant focus in this area. I think we talked about it on previous calls as well.

Number one, there is metrics. We have had metrics in place from a management standpoint to focus in on that. Again, that certainly -- those targets -- I think that focus has helped.

Secondly, as part of our global efficiency improvement program, the synergies associated with reducing distribution points, moving to coordinated global inventory planning and control. Again, all those common processes, plant rationalization as appropriate. All these movements significantly streamline and simplify a pretty complicated supply chain.

Again, we believe that there is still significant room to go; this is a gradual effort. I don't think you should measure it on a quarter-to-quarter basis, but you should measure it over multiple quarters and expect continued progress. Again, we're pleased with the progress thus far. But again, we are early to mid-innings in terms of that metric at this stage in the game.

Michael Clerico - *Morgan Stanley - Analyst*

Thank you.

Operator

We have no further questions in queue, so at this time I turn the call back over to Derek Leckow for any additional or closing comments.

Derek Leckow - *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 any further questions, I am around today for follow-up. Thank you, goodbye.

Operator

That does conclude today's conference. We thank you for your participation.
