

FINAL TRANSCRIPT

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XRAY - Q2 2010 DENTSPLY International Inc. Earnings Conference Call

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DENTSPLY International Inc. - Chairman, CEO

Bill Jellison

DENTSPLY International Inc. - SVP, CFO

Chris Clark

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CONFERENCE CALL PARTICIPANTS

Glen Santangelo

Credit Suisse - Analyst

Jeff Johnson

Robert W. Baird - Analyst

Derek Leckow

Barrington Research Associates - Analyst

Unidentified Participant

- Analyst

Elliot Feldman

Barclays Capital - Analyst

Scott Green

Banc of America - Analyst

PRESENTATION

Operator

Good day, and welcome to today's DENTSPLY 2010 second quarter earnings conference call. Today's call is being recorded.

I would now like to turn the conference over to Mr Bret Wise, please go ahead, sir.

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

Thank you, Ben, and good morning everyone. Thank you for joining us on our second quarter earning call. This is Bret Wise, Chairman and Chief Executive Officer and also with us today are Chris Clark, our President and Chief Operating Officer, and Bill Jellison, our Senior Vice President and Chief Financial Officer. I would like to begin today's call with some overview comments on our results for the quarter, and also our view of the state of the global dental market. And I'll then have Bill Jellison provide more details on the financial results. And following our comments, of course, will we will be all glad to answer any questions you have.

Before we get started, it's important to note this conference call may include forward- looking statements involving risks and uncertainties, and these should be considered in conjunction with the risk if factors and uncertainties described Company's most recent annual report on Form 10-K and our periodic reports on Form 10-Q, our press releases, and other filings with the SEC. 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 as usual, a recording of this conference in its entirety will be available on or website.



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This morning, we announced our results for the second quarter of 2010 and are pleased to report a continuation of the sequential improvement that we saw emerging beginning in the third quarter last year. Continuing with positive internal growth in the fourth quarter 2009, and now slight acceleration of growth as we move through the first half of 2010. Overall, our sales proved 2.2% in the quarter, and without precious metal content, improved 1.5%. This growth was driven by 2.5% internal growth, consistent with what we saw in the first quarter. And acquisition growth of 0.3%, giving us constant currency growth of 2.8%. This allowed us to overcome a negative comparison from currency of a minus 1.3% and that was driven largely by the rapid evaluation of the Euro against the Dollar during the quarter. The 2.5% internal growth reflected essentially flat growth in the US, down 0.1%. 4.4% growth in Europe, and 3.7% growth for the rest of the world.

US growth reflects a continuation of the low single digit growth we've experienced in the specialties in the aggregate, and that's really consistent with what we saw in the first quarter. Offset by slightly weaker sales in the lab products, which were down low single digits in the quarter. Our overall assessment of the US market really has not shown any meaningful improvement over what we saw in the first quarter. However, that should not be a surprise as we look at the economic data and the fact that we're really experiencing a jobless recovery in the US. Of course, we'll know more about the overall market when the distributors report in the next few weeks.

European growth remains strong at 4.4%, helped by, in part by, easier comparisons from the prior year, particularly in the CIS region, but also strong growth this quarter in our consumables and essentially all of our specialty categories. The remainder of the world had internal growth of 3.7%, and that was driven mostly by strong performance in Asia, Latin America and Canada. Worldwide performance by product category was low single digit growth in consumables, lab was negative low single digits, and specialty category was positive mid single digits. There's always much interest in the dental implant business, which had internal growth in the 3% to 4% range, led by double digit growth in the US, and low single digit growth in Europe. We believe we continue to take share in the global implant market driven by two strong implant product platforms, and also the investments we've made in sales, marketing and R&D over the past several years.

Our earnings on a non- GAAP basis came in a \$0.50 per share. That's a 2% improvement on a stronger operating margins of 20.3%, again on a non- GAAP basis, which was a 20 basis point improvement over the prior year quarter. These are the strongest operating margins we've delivered since 2008 prior to the recession. Our earnings would have been much stronger on a currency neutral basis, however, the rapid decline in the Euro in particular and strength of the Yen combined to hurt earnings by a couple pennies a share in the second quarter. In addition, we continue to have very strong cash flow in the quarter with operating cash flows year to date of \$150 million, that's up 30% from the prior year. Year to date we've completed four small acquisitions, two of which were in July, and to date, we've repurchased 5.4 million shares under our share authorization, which was expanded in March.

Our balance sheet remains really in very good shape, we're producing very strong cash flows, and improving results and we feel good about our prospects. We continue to make internal investments in growth. And have been particularly pleased with performance of some of our new products, which we've launched over the last year. We feel we continue to gain momentum in the specialty product categories and have had some real positive signs on select product launches and consumable categories. This tells us the dentists still welcome the opportunity to invest in their practices through new dental technologies, which we view is a good sign for the future.

As noted in the release, our exposure total Euro will likely continue to have a negative impact on our results compared to what we expected when we entered the year. With the Euro below \$1.30, which compares unfavorably to what was \$1.43 in the third quarter last year and \$1.47 in the fourth quarter last year, currency will likely to be a headwind for us over the next two quarters. Given this currency impact, we're adjusting our earnings guidance to a range of \$1.86 to \$1.94 on a fully diluted basis for all of 2010, and again, that's measured on a non- GAAP basis. I'd like to now turn the call over to Bill Jellison, who will discuss the financial results in more detail.



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Bill Jellison - DENTSPLY International Inc. - SVP, CFO

Thanks, Bret. Good morning, everyone. Net sales for the second quarter of 2010 increased by 2.2% in total, and increased by 1.5% excluding precious metals. The sales increase ex-precious metals for the quarter included a constant currency increase of 2.8%, which included a 2.5% increase from internal growth and a 0.3% increase from acquisitions. The quarter was also negatively impacted 1.3% from foreign exchange translation, largely due to the Dollar strengthening against the Euro, compared to last year's second quarter. The geographic mix of sales ex-precious metals in the second quarter of 2010 included the US at 38%, Europe, represented 39%, and the rest of the world was 23% of sales.

We do not believe the channel inventory changes had any significant impact on the Company wide internal growth rates in the period. However, we do believe the European growth was benefited by a rebound in the CIS markets this quarter. The stronger Dollar in the second quarter, especially against the Euro in the same period last year, had a negative impact on earnings per share in the period of nearly \$0.02 per share. Although the Euro has shown some recent strength based on current currency rates, we believe we will continue to have a negative impact on both sales and earnings in the back half of the year.

Gross profit margins as a percentage of sales ex-precious metal content in the second quarter of 2010 were 55.4% compared to 55.8% for the second quarter of 2009. When compared to the same period last year, we were negatively impacted by product mix, which is partially offset by improved pricing. We did benefit from some positive manufacturing and purchase price variances, however many of those were not fully reflected in the second quarter, but they will have some benefits on the margin rates in the back half of the year.

SG&A expenses were \$182.4 million, or 35.1% of sales ex-precious metals in the second quarter of 2010, versus 35.9% in the years, in the prior year second quarter. These expenses were not only lower than those in last year's second quarter on a Dollar basis, but they were also lower when measured as a percent of sales. We are currently benefiting from some of the expense reductions we put in place last year. Importantly, some of the benefits of our expense focus continue to be reinvested in areas we believe can help support future growth opportunities.

Operational margins for the quarter were 18.6% compared to 17.9% in the second quarter of last year. Our operating margins based on sales excluding precious metals were 20.2%, compared to 19.3% last year in the same period. And operating margins based on sales excluding precious metals for comparative purposes, excluding acquisition related activities, and restructuring and other costs in both periods would have been 20.3% in the second quarter of 2010, and 20.1% in 2009. As we move into the back half of the year, we expect favorable improvements in our gross profit margin rates compared to last year as we achieved better absorption of costs, reflect improved pricing, and benefit from a slightly more favorable mix. However, we also believe SG&A expenses will run higher in the back half of the year as a percentage of sales, as many of our cost improvements were already in place in the back half of last year, and we have continued to invest in key growth opportunities.

Net interest and other expenses in the second quarter was \$6.6 million, compared to \$3.7 million last year in the second quarter. The increased expense in this area of \$2.9 million was primarily the result of a non-cash interest charge of \$1.2 million resulting from a credit risk adjustment on the outstanding derivatives, which we highlighted as an adjustment for our non-GAAP earnings per share. And a foreign exchange transaction loss of \$1.4 million, versus a slight gain of \$0.2 million in the same quarter last year. We were also negatively impacted by lower interest income on our cash balances as rates have decreased since last year. The corporate tax rate in the second quarter of 2009 and 2010 was approximately 25.5%, and we believe this is also a reasonable rate to assume for the remainder of this year.

Net income attributable to DENTSPLY International in the second quarter of 2010 was \$72.4 million, or \$0.49 per diluted share, compared to \$70.2 million, or \$0.47 per diluted share in the second quarter of 2009. Our net income attributable to DENTSPLY on an adjusted non-GAAP basis, excluding acquisition related costs, restructuring and other costs, a credit risk adjustment to outstanding derivatives and income tax related adjustments was \$73.9 million, or \$0.50 per diluted share in 2010, compared to \$73.1 million, or \$0.49 per diluted share in the second quarter of 2009.



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Cash flow from operating activities in second quarter was \$113 million, compared to \$105 million in the prior year quarter, and in the first half of 2010, it was approximately \$150 million, compared to \$115 million in the same period last year. Capital expenditures were \$19 million in the first half of the year, with depreciation and amortization at about \$34 million in the first half. Capital expenditures right now are currently expected to be in the range of about \$50 million to \$60 million for the entire year. Inventory days were 100 at the end of the second quarter of 2010, compared to 103 days at the end of the first quarter of -- or first quarter and 110 days at the end of the same period last year. We do expect some additional improvement in inventories by the end of the year, but most of that should occur in the fourth quarter. Accounts receivable days were 57 days at the end of the second quarter of 2010, compared to 59 days at the end of the first quarter, and 57 days at the end of the second quarter in 2009. We believe our accounts receivable are in good shape, and they remain a key focus for our entire team.

At the end of the second quarter of 2010, we had \$340 million in cash and short-term investments, total debt was \$475 million, at the end of the second quarter as well. Year to date, we have repurchased approximately \$185 million of our stock or approximately 5.4 million shares at an average price of approximately \$34. Based on the Company's authorization to main up to 22 million shares of treasury stock, we now have approximately 2 million shares still available for repurchase.

Finally, due to the strengthening the Dollar against most currencies, and with the Dollar at approximately \$1.30 to the Euro, we expect a top line headwind in the back half of the year of approximately 3% to 5%. As we look at our results year to date, our current business outlook and recent foreign exchange movements, we are adjusting our 2010 full year earnings per diluted share guidance to \$1.86 to \$1.94 on a non-GAAP basis, excluding restructuring and other costs, our recent acquisition related activities and income tax related adjustments. That concludes our prepared remarks, and 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) We'll pause just for a moment to assemble a roster. We'll take our first question from Glen Santangelo with Credit Suisse.

Glen Santangelo - Credit Suisse - Analyst

Thanks. I had a quick question about organic growth. Bill, if I heard you correctly, was organic growth 2.5% in the first quarter and it just slightly decelerated to 2% in the second quarter? Did I hear that correctly?

Bret Wise - DENTSPLY International Inc. - Chairman, CEO

No, this is Bret. It was actually 2.5% in both the first and second quarter, so internal growth excluding FX, and excluding acquisitions. 2.5% in both quarters.

Glen Santangelo - Credit Suisse - Analyst

Okay because my question really revolves around gross margins. If I heard correctly, you're sort of assuming that gross margins maybe tick up a little in the back half of the year, and I was kind of curious as to maybe -- and I know you kind of attributed that to better absorption and mix. But is there some expectation of an acceleration of organic growth to drive those higher margins or no?



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

Well, this is Bret again, yes, our guidance for the year on internal growth is low single digits. That's what we entered the year with. I think given the state of the market we're comfortable with staying with that kind of guidance, although I don't think we're being specific about whether it would accelerate from here or decelerate a little bit, who knows? It's hard to predict in this market. So the gross margin comments coming from Bill this morning are more driven by -- driven by the fact we know what we were doing last year in the back half of the year which was rapidly bringing down inventory, and we have programs in place this year we think will give us some acceleration of gross margin. So we're comfortable we've we'll have year-over-year benefits in the back half.

Glen Santangelo - *Credit Suisse - Analyst*

So, Bret, the point is that gross margin should be up year over year in the back half, but you're not necessarily saying they should accelerate sequentially?

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

I think that would be fair.

Glen Santangelo - *Credit Suisse - Analyst*

Okay. And then just a followup question on SG&A. We obviously ticked down about \$5 million sequentially in the second quarter, and you kind of touched on those reasons, but I thought I also heard that you expected that SG&A to trend higher over the next couple quarters. Is that also a statement about the sequential sort of trend line for SG&A? Should it head back to that 185 to 190 level?

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

Again, this is Bill, Glen. Associated with the SG&A, the SG&A comment that we made was really relative to kind of how the SG&A looked relative to last year. If you look at the kind of quarter breakdowns that existed throughout last year, you'd see that SG&A pretty much improved both really in dollars and also on -- as a percent of sales, especially as we moved into the back half of last year. That's because most of our cost reduction efforts that we put in place really didn't fully impact us until the back half of the 2009, plus as I mentioned, we started to reinvest in a couple other key areas for some additional growth, and that reinvestment really didn't occur until late 2009.

Glen Santangelo - *Credit Suisse - Analyst*

Okay. Thanks for the details.

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

Sure.

Operator

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

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Jeff Johnson - Robert W. Baird - Analyst

Thank you, good morning.

Bret Wise - DENTSPLY International Inc. - Chairman, CEO

Good morning.

Jeff Johnson - Robert W. Baird - Analyst

Hi, Bill, I guess I will start with you. On the FX you said it was about a \$0.02 hit or so to Q2, you're trimming guidance by a nickel or so. How much of that trim to guidance is purely the FX flow on the model versus a fundamentally taking a more cautious look at things over the next few quarters?

Bill Jellison - DENTSPLY International Inc. - SVP, CFO

Jeff, as far as FX is concerned, based on where rates were at before, and where they are now, the -- virtually the entire reduction to our guidance is associated with the FX changes.

Jeff Johnson - Robert W. Baird - Analyst

All right. And the 3% to 5% headwind you were talking, that's a H2 headwind, not a full year, so the H2 headwind each of the next two quarters should be 3% to 5% at the top line?

Bill Jellison - DENTSPLY International Inc. - SVP, CFO

That's correct, and again, that's on the top line. That's not the total impact of the currency move, but that's the impact that is affecting our sales.

Jeff Johnson - Robert W. Baird - Analyst

Fair enough. And Bret, any insight on the acquisitions that were completed in July, size or should I not even be dumping them into my model?

Bret Wise - DENTSPLY International Inc. - Chairman, CEO

They are small tech under acquisitions. I don't think you need to adjust your model for them at this point.

Jeff Johnson - Robert W. Baird - Analyst

On the US number, down 0.1% on the organic. Bret, I think if I heard your comments, you felt like US was pretty stable, the flip side to that is it did seem to slow sequentially by a point, so just trying to reconcile those two things?

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Bret Wise - DENTSPLY International Inc. - Chairman, CEO

Yes. And I think some of that can be compared to the baseline, because you might remember our comments in the first quarter, where there was some inventory reductions in the base period more so in the first quarter than second quarter. And in the second quarter this year, we ended up essentially flat in the US, positive in specialties, a little bit of a drag from the lab business and we kind of view that as a stable situation. One other thing that's probably affecting us is in the second and third quarters last year, we were promoting our equipment in the US pretty heavily. We had some good uptick on that, and I think that's creating a little bit of a negative comparison in the second quarter of this year, and we may have that in the third quarter again, but that's pretty minor when measured across the whole business.

Jeff Johnson - Robert W. Baird - Analyst

And just so I understand your base period comments, what you're saying is last year in the first quarter of 2009, you had more of inventory destocking which helped Q1 of 2010, and that tailwind in Q2 2010 wasn't quite as great?

Bret Wise - DENTSPLY International Inc. - Chairman, CEO

Yes, I think by the time we got to second quarter there wasn't much inventory liquidation in the US going on last year.

Jeff Johnson - Robert W. Baird - Analyst

Yes, last year, okay. Makes sense. And last question was on what, just from a new product standpoint, any comments with your FDA, or with the FDA and the MTM product?

Chris Clark - DENTSPLY International Inc. - President, COO

Yes, Jeff, it's Chris. Let me comment first in terms of broader new products, then I'll hit the MTM as well. I think overall we are pretty pleased, as Bret mentioned, with the uptick of recent innovations in particular, highlight the SDR flowable bulk fill composite, which right now we are up to over 30,000 new users globally, which is, we think, certainly pretty nice in terms of the uptake and the momentum continues. We're also real pleased with several introductions over the last several quarters on the endo side, particularly the vortex vial the path vial, and then also Cercon brain expert on the prosthetic side. We are pleased with continuing to see pretty solid uptake in terms of that element of the lab business. We had a couple of introductions in Q2 as well. We expanded our comported centralized manufacturing of precious metals to the US, we introduced a smart light max LED curing light that adds a lot more versatility, if you will, to that area, particularly because this is -- will basically cure a wider range of restorative materials. As we look forward, we have a pretty solid pipeline moving forward.

Specific to the MTM, we did have discussion on the the new product with dentists and filed a 5-10-K on the product and are at this point waiting for approval with FDA. We were hopeful that we would have approval from FDA during this quarter, but obviously, that's kind of tough to predict, and we are in dialogue with FDA, and are hopeful we get approval on that later this year. Obviously, once we we have approval, then we'll do the full launch moving forward.

Jeff Johnson - Robert W. Baird - Analyst

That's helpful, thanks.

Operator

We'll take our next question from Derek Leckow with Barrington Research.

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Derek Leckow - *Barrington Research Associates - Analyst*

Thank you, good morning.

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

Good morning, Derek.

Jeff Johnson - *Robert W. Baird - Analyst*

On the comments on organic growth, 2.5%, you did break this down partially, you said low single digit growth in specialties, lab down low single digits. And then what was US consumables and European consumables?

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

US consumables for the true couple abilities, meaning not the small equipment component, was positive low single digits, and overall was -- with the equipment was negative low single digits. European consumables, I don't have that handy. Do you have that?

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

It was up mid- single digits.

Derek Leckow - *Barrington Research Associates - Analyst*

Mid- single?

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

Mid-single, correct.

Derek Leckow - *Barrington Research Associates - Analyst*

All right. Then just wondered if you could give me your market perspective in the specialties category. I know you said you had very strong growth in the area of implants in the US, maybe just some more color on the market dynamics that are going on and market share that you might be gaining in that category.

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

Yes, we've been, the three categories for specialties are obviously endodontics, orthodontics, and implants. Implant market, we have very low market share in the US, but we made key investments, let's call it two and a half years, and I think we've made good progress on that, and we've been kind of reporting double digit growth there, almost throughout the recession. So, we're very happy with that. The implant business also continues to grow in Europe and developed Europe, as well as the emerging markets within the European community and I think that's positive. We've had less success in the rest of the world categories, particularly in Korea, which is a market we think is contracting pretty rapidly.

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It's a little bit difficult for us to comment on the overall market on implants, because we're awaiting the reports of the two largest implants players that will come in the next two or three weeks, and that will give us more insights into what is happening in the market, but with respect to our performance, we're very pleased with that. With respect to orthodontics, we had low single digit growth, and appear to be executing well there as well. I think that's probably a pretty tough market, because I think orthodontics starts are probably not up in 2009, or 2010. And we continue to grow in that category and we are very happy with that. And in endodontics, we had closer to mid single digit growth driven by some pretty strong performance across many territories. I think we must be taking share in that category and driven in part by new products.

Derek Leckow - *Barrington Research Associates - Analyst*

What was the key new product there again? Was it a new file?

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

We continue to get, as I mentioned Derek, solid traction behind both the vortex file in the US and then also the path file, which we've introduced globally. Those two in particular. There were several other new product introductions, but I would certainly highlight those two.

Derek Leckow - *Barrington Research Associates - Analyst*

Okay. And then within the consumables businesses, you said both in Europe and in the US your end user sales were matching what you were seeing with distribution, so the channel seems to be carrying the right level of inventory? Is that a fair statement?

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

I would say there wouldn't be a lot of changes year on year in terms of channel inventories. If we compare it back to last year as well.

Derek Leckow - *Barrington Research Associates - Analyst*

Okay.

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

We'd like to see the two large distributors reports so we can see what the market did.

Derek Leckow - *Barrington Research Associates - Analyst*

Okay.

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

Which would give us more insight into that.

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Derek Leckow - *Barrington Research Associates - Analyst*

Finally, just looking at your balance sheet, \$340 million, I think it said in cash, you've been an aggressive buyer of your stock around the prices \$34 a share. I think if I take the 2.2 million, I would assume you would execute that shortly, \$64 million for that. And then are you looking at any bigger acquisitions or will the focus be -- will the board then authorize perhaps an additional amount of stock to repurchase, or what's the feeling on that?

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

Our priorities haven't changed. The first priority is to reinvest in the business, the second one is to expand the business through business development and third priority would be share repurchases, and fourth priority is the dividend. So, I don't want to get out in front of the board's decision on whether to expand the share repurchase, if in fact we exhaust what we have left. But I think those -- I think it's fair to say that our priorities haven't changed.

Derek Leckow - *Barrington Research Associates - Analyst*

Is there an opportunity to recapitalize some of your debt in the near term? Restructure that a little bit? Get better rates?

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

We actually just put -- we just reestablished both a private placement and we also did a revolving credit agreement just in the first half of this year, Derek. So, we're in pretty good shape there.

Derek Leckow - *Barrington Research Associates - Analyst*

So if I looked at your purchasing power at this point in time, if I took away the \$64 million, what would be your purchasing power as far as acquisitions would be concerned?

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

We have a balance sheet, Derek, that on a net debt basis has almost no leverage on it, so our purchasing power is quite substantial.

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

It's not just limited by the financing that we currently have in place.

Derek Leckow - *Barrington Research Associates - Analyst*

Okay, so I would assume maybe if you had 21% debt to capital, that would be a comfortable range for you?

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

Well, what we've said is that our target is in the mid 30s for debt to cap and we recognize we are well below that at this point, but we have a business that produces very consistent and strong cash flow, and could -- a balance sheet that could absorb much more leverage than we have on it today.



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Derek Leckow - *Barrington Research Associates - Analyst*

Okay. Thanks very much.

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

Okay.

Operator

We'll take our next question from John Kreger with William Blair.

Unidentified Participant - *Analyst*

Hi, good morning. This is actually [Robby Fada] in for John Kreger today.

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

Good morning, Robby.

Unidentified Participant - *Analyst*

If you take a look at patient traffic trends in the US and Europe on a monthly basis, how did those trend throughout the quarter, and if you're willing to comment, what are you seeing so far in Q3?

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

Yes, Robby, it's Chris. I don't know that we have a lot of visibility to that, obviously any data we would have would be anecdotal just in terms of -- from sales reps calling on offices, as well as potentially through distributors et cetera. I would say it's pretty consistent with what we saw in the first quarter. I wouldn't say that we've seen a significant change in terms of -- in terms of what we think the underlying dental market activity is. I'm not sure we are the best barometer for that.

Unidentified Participant - *Analyst*

Got it. No, that's helpful. Secondly, you mentioned that last year's results in, I think it was the first quarter, were positively impacted by equipment promotions? Are there any plans to do any additional equipment promotions in the second half of this year?

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

Let me clarify the first comment first. The comment was that we had equipment promotions in the second and third quarter last year.

Unidentified Participant - *Analyst*

Okay.

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

We always have some promotions, but we had heavier promotions in the US second and third quarter last year, and I would say our promotional activity is more of a steady state, normal level at this point.

Unidentified Participant - *Analyst*

Okay. Thank you very much.

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

Thank you.

Operator

We'll take our next question from Elliot Feldman with Barclays Capital.

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

Ben, I think Elliot might have dropped off. Should we go to the next question?

Elliot Feldman - *Barclays Capital - Analyst*

Can you hear me?

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

Is that Elliot?

Elliot Feldman - *Barclays Capital - Analyst*

Yes, this is Elliot. Sorry about that. (Inaudible). This is Elliot filling in Larry Marsh here. You came in with a pretty good cash flow from ops number, was wondering how we could think about the pad of cash flow generations for the back half of the year. And secondly, just try to target down on the -- you talked about the developing worlds markets a lot, just wondering what you're seeing in those markets, kind of from a broad perspective.

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

You want to cover the cash flow?

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

Cash in general should remain pretty solid in the back half, keep in mind though in the the back half of last year, we were actually pulling some inventory down because our inventory days were higher. They were around, I think around 110 or so, in comparison

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to the 100 that they are at this point. So, we probably won't get the benefit from the inventory days in the back half, but generally, we should still see a good solid cash flow within that period.

Elliot Feldman - *Barclays Capital - Analyst*

Okay.

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

And the developing markets, I would say it's always a mixed bag, there's so many different economies within that group, but the ones that we see best positioned right now would be the Asian markets in total, and Latin America secondly. Within the -- that category and also some of the CIS and MEA type regions, I think the economies that have not been hit terribly hard by currency, for us at least performing well, and those that have had a significant devaluation of the currency against either Euro or the Dollar, are not performing so well because they have to import our products at a much higher price. That's a general comment realizing that we are talking about probably 120 countries when we generalize like that. (Inaudible) some downs.

Elliot Feldman - *Barclays Capital - Analyst*

Okay. Thanks. Appreciate it.

Operator

(Operator Instructions) We will take our next question from Scott Green with Banc of America.

Scott Green - *Banc of America - Analyst*

Hi, thanks for the question. To clarify, could you tell us what the midpoint of your new guidance now assumes for FX? Is it around \$1.30 on the Euro?

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

Yes, I think that is at least a reasonable range to use. We stated that where we're at right now, which is about \$1.30, that's probably a reasonable rate, at least for you to assume in the back half of the year as far as our guidance is concerned.

Scott Green - *Banc of America - Analyst*

Okay. And then could you talk about your Barcelona implant symposium and what momentum you got from the show and how that compared to your expectations going in?

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

Scott, it's Chris, I would say we were real pleased with the event, and we continue to be pleased with the momentum after that. Obviously with that event, being over 2,000 attendees, focused on a wide range of implants solutions, but specific, we were real pleased with the discussions relative to our Ankylos line, and specifically the Ankylos CX and we're pleased with the follow up from that meeting in terms of the momentum we have on that business, and I think that is certainly helping our -- helping to drive some of our implant numbers, particularly in the US, which we're real pleased with.

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Scott Green - Banc of America - Analyst

Okay, great. On endo, how would, if at all, a Henry Schein Brasseler combination impact your competitive position in the market?

Bret Wise - DENTSPLY International Inc. - Chairman, CEO

We compete with both of them now, so I don't think it would have much impact on us, and I don't think I want to comment further on that. Those are, Henry Schein is our distributor in our consumable lines and they compete with us in some of the specialty lines, and Brasseler, of course, competes with us primarily in consumables and into docs.

Scott Green - Banc of America - Analyst

Okay. And then lastly, just the outlook or strategy for price increases in the back half of the year, and how those might compare to 2009 levels.

Chris Clark - DENTSPLY International Inc. - President, COO

Yes, again, it's Chris, I would say that our price increase timing, is probably going to be very similar to what we've done historically. We typically, on consumables, do take price increases at the end of the third quarter. I would say the levels, again, we're still in the process of finalizing those, but probably be slightly above last year's levels, if I had to put a number on it, today it would be in the 2% plus a bit range, but, again, we're still in the process of finalizing those.

Scott Green - Banc of America - Analyst

Okay. Anything that we should think about in terms of seasonal progressions? Or you don't think it will be meaningful enough to have a significant variance over last year's trends?

Chris Clark - DENTSPLY International Inc. - President, COO

I think it would be -- my sense is would be it would be pretty similar to what we saw last year.

Scott Green - Banc of America - Analyst

Okay. Thank you.

Operator

We'll now take a follow up question from Jeff Johnson with Robert Baird.

Jeff Johnson - Robert W. Baird - Analyst

Thanks. Just two quick ones. Bill, what was the share count exiting the quarter? I know what it was for the quarter, but exiting the quarter?



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Bill Jellison - DENTSPLY International Inc. - SVP, CFO

I don't have it handy, I think you can assume roughly that it's right in the 146 kind of range.

Jeff Johnson - Robert W. Baird - Analyst

About a million below where we were?

Bill Jellison - DENTSPLY International Inc. - SVP, CFO

Maybe like 146.5, yes, somewhere in that range for the back half.

Jeff Johnson - Robert W. Baird - Analyst

Okay. Great. And was there a little restatement, it seems like Q2 2009 numbers shifted around a little bit, not a big impact, but enough that it changed my year-over-year comp.

Bill Jellison - DENTSPLY International Inc. - SVP, CFO

We did a slight reclassification of some of the costs that we had in SG&A last year. It really all dealt with research and development, or more specifically our ongoing engineering related categories, some of those costs were previously in the R&D expense area and they should have actually been up in cost of goods sold for a couple of the divisions. It's about 20 to 30 basis points swing between those two categories in the back half of the year as well, which is what it was in the first half.

Jeff Johnson - Robert W. Baird - Analyst

So take H2 2009 gross margin down about 20 to 30 bips and OpEx down about 20 to 30 bips as well?

Bill Jellison - DENTSPLY International Inc. - SVP, CFO

That's correct.

Jeff Johnson - Robert W. Baird - Analyst

All right. Helpful, thanks.

Bret Wise - DENTSPLY International Inc. - Chairman, CEO

Thank you.

Operator

At this time, we have no further questions in the queue, I would like to turn the conference back to Mr Bret Wise for closing remarks.

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

Thanks, Ben. Thank you all for listening in this morning. We feel we're off to a good start in the first half of 2010 and have some good momentum despite a slow recovery in the global dental market. Thanks again for calling in this morning. We look forward to updating you on our progress as we move throughout the year. Good morning.

Operator

Ladies and gentlemen, that does conclude today's conference, we thank you for your participation.

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