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EDITED TRANSCRIPT

XRAY - Q2 2012 DENTSPLY International Inc. Earnings Conference Call

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OVERVIEW:

XRAY reported 2Q12 reported sales of $763m and reported net income attributable to Co. of $80.8m or $0.56 per diluted share. Expects full-year 2012 adjusted EPS to be $2.18-2.24.

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PRESENTATION

Operator

Good day and welcome to the DENTSPLY International second-quarter 2012 earnings call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Mr. Derek Leckow, Vice President of Investor Relations. Please go ahead sir.

Derek Leckow - *Dentsply International Inc - VP, IR*

Thank you very much John and my thanks to each of you for joining us today to discuss DENTSPLY International second-quarter 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 I would be glad to answer any questions that you may have.

I hope you all had a chance to review our press release which we issued earlier this morning. A copy of the press release is also available for download on our website www.dentsply.com. We 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's important to note that this call may include forward-looking statements involving risk 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. 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 nonrecurring items and other non-GAAP adjustments. In an effort to provide clarity from the distortion of some of these items, our comments on this call will focus on results including certain adjustments, which are noted in the non-GAAP reconciliation tables contained in the release. You'll note that our earnings guidance is also presented on an adjusted basis.

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With that I'd now like to turn the call over to Chairman and CEO, Bret Wise. Bret?

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

Thank you Derek. Good morning everyone and thanks for joining us on the call this morning. DENTSPLY had another strong quarter in the second quarter, which built on a solid start we had in Q1 this year. We had record performance in both sales and adjusted earnings.

Our total growth ex-PM came in at 23.8% and that included internal growth of 3.6%. Our earnings were very strong at $0.62 adjusted EPS, and that was driven by numerous factors which we will get into in a moment. However, the most important in my mind is the operating expansion we saw in our base business. These results exceeded our own expectations for the quarter by $0.02 per share and overall we view it as a very strong performance operationally.

In a moment we'll give more details on the performance, but before we do I have a few comments on the overall dental market. I think it's fair to say that the global dental market probably slowed at least modestly in the quarter, most notably in the US. Job growth in the US as you know remains weak and we've seen economic projections for the back half of the year come down, really meaningfully at this point.

Although dental is not as dependent on economic factors as other markets, we are not immune either. At present the weak job market is clearly bearing on consumer confidence and has had a modest effect in our view on the dental consumption thus far. So although the markets continue to grow it's more modest than say it was six months ago.

In Europe we believe that the market is still in positive territory in total, although market dynamics vary significantly from geographic market to country market. As you know, the economic headlines have not really improved and may have eroded bit.

From a currency perspective it's also no secret that the euro has declined significantly from a year ago. At current rates the decline of the euro will be in the 13% plus range in Q3 versus the prior year quarter, which improves our cost position for products produced in the euro zone but also reduces profits when profits are translated back to dollars. But those are important dynamics for us.

In the rest of the world category, which includes some 120 country markets, we continue to see signs of strength, which is reflected in our rest of world growth this quarter. And this includes both the developed and the developing portions of the rest of world category for us. With this backdrop we are very pleased to report what we view as very strong results for the Company.

Let me give you first the highlights to start, and then Chris is going to comment on the Astra Tech integration and our ortho relaunch program, and finally Bill will provide some details on our financial performance. As noted in the release, sales as reported were $763 million, that's up 25.2%, and excluding precious metal content, sales were up 23.8%. Both sales with and without metal were records for the second quarter and is driven primarily by our 2011 acquisitions, most notably Astra Tech, but also reflects the solid internal growth building off a very solid start we had in Q1. At a high level our internal growth continues to be driven by new products, continued above market performance in the dental specialties, and some continued improvement in our lab business.

Our growth excluding precious metals for the quarter breaks down as follows. As I mentioned, total growth was 23.8%, and that was comprised of internal growth of 3.6%, acquisition growth of 26.4% to result in constant currency growth of 30%, and currency translation was a negative 6.2% this quarter. Internal growth at 3.6% was again negatively impacted, but really only slightly by the supply outage in orthodontics. Excluding Japan and orthodontics, internal growth was 3.9% for the quarter. This is a good result against the sluggish GDP growth really in most of the developed regions around the world. And for the first half in total, we are pleased with our internal growth performance, again ex-ortho and Japan at 4.2% in this economic environment.

Geographic internal growth was positive in each of our major regions and I'll give this to you first in total, and then without orthodontics and Japan. So first in total internal growth ex-PM was positive 1.0% in the US, again despite the orthodontics headwind. It's a positive 2.8% for Europe and a positive 8.6% for rest of world. Without ortho and Japan, internal growth ex-PM was a positive 2.9% in the US, so you can see that orthodontics had the largest effect on internal growth in the US this quarter.

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Internal growth in Europe ex-ortho was 2.6%, a good result in light of the macro headlines we see in the region. And rest of world ex-ortho and Japan was a positive 8.1%, which is encouraging results and reflect initiatives we have for the emerging markets that we've discussed with you on recent calls.

To elaborate further on geographic growth ex-ortho and Japan, our sales growth in the US slowed in most categories from the very fast pace we'd experienced in the fourth quarter last year and the first quarter this year. In particular we saw slower growth in consumption of the chairside consumables, most notably in the small equipment category. Ex-small equipment, this category grew mid-single digits. Although this is still positive performance compared to what we believe the market is growing it does indicate to us that there's been a slight slowing in dental demand during this most recent quarter.

Beyond the consumables category, we had solid mid-single growth in the specialties, again ex-ortho and in lab. One last point in the US, it's the only region where orthodontics again impacted us negatively as we prioritize regions outside the US in our early relaunch program. Chris is going to provide more details on that.

Likewise in Europe our internal growth was 2.6%, and we believe that's well above the market and again is driven by our innovation, our new products introduced both last year and this year. Our growth was mid-single digits in both consumables and specialties, again ex-orthodontics.

In lab, it was down low-single digits driven by the alloys, and excluding the alloy volumes, lab grew again this quarter. While we are pleased with this performance relative to the market, I think it's fair to say we remain cautious on this region given the economic uncertainty that they face.

Our performance in the rest of the world segment's back in the range we've grown historically at 8.1%, and some of our recent investments in this area I think are paying off. We had double-digit growth in several key categories, including Asia and Middle East Africa.

On product categories our global internal growth was mid-single digits in the specialties, despite the slight drag from orthodontics. Mid-single digits in consumables and slightly negative in lab. Again, without alloys the lab business showed low-single digit growth.

In implants, our pro forma internal growth was positive in the low-single digits range, reflecting some slowing of this market, with approximately 50% of the market now reporting we believe that we're probably continue to grow at a premium to market this quarter, despite the distractions that we have from the integration process.

On earnings, Bill will have more details, however we're pleased to see continued expansion in gross margins. This is due in large part to mix but also to pricing and manufacturing efficiencies. I will point out that we had some growth in inventories in this period that's aiding the performance here and we expect the inventory levels will come down in the back half of the year.

The expense ratios improved significantly on a sequential basis. The combination of factors drove -- the combination both the gross margins and the improvement in the expense ratio of course drove the operating margins up 170 basis points sequentially. And it's now approaching the operating margins that we had before the Astra Tech acquisition.

We do expect some pressure on rates in the back half of the year as we reduce inventories. I think we have a lot more work to do here but it's encouraging to see that we're moving in the right direction.

As expected we commenced the rolling relaunch of our orthodontic brackets late in the quarter. The launch varies by product and by region but it's well underway at this point. As noted, sales of orthodontic products outside the US were accretive to our growth rate as we restocked customers.

Earnings for orthodontics were neutral year over year in the quarter, which was $0.01 or so per share better than we expected coming into the quarter. In the third quarter we expect US growth to be aided by more emphasis on the relaunch now in this region versus the rest of the world category. And we all see the same -- we expect to see the same impact in the US from the restocking effect beginning in the third quarter.

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As far as earnings, phasing of the relaunch of the international markets probably pulled $0.01 or so per share into the second quarter from the third quarter. We will discuss this more when we discuss the earnings guidance for the back half.

Our earnings non-GAAP came in at $0.62 a share, that's up 10.7% from the prior year quarter. And I think it's important to note that the prior year quarter we also grew 10%, so we've got back-to-back double-digit earnings growth here for the second quarter. We view this as a very strong performance and it was a few cents a share better than we had anticipated coming into the quarter. In part due to the orthodontics improvement and part to the really significant improvement in the operational performance of the balance of the business particularly in operating margins. And those factors helped us overcome an increasing drag from currency in Q2.

Looking forward the euro is of particular concern to us. It was down 11% on average in Q2, and at current rates it will be down a bit more than that in the back half with the greatest impact in Q3. This creates a meaningful sales and earnings headwind for the balance of the year at this point. So despite strong operational performance we now expect adjusted EPS to be in the range of $2.18 to $2.24 for the full year, and that's versus our earlier guidance of $2.22 to $2.30. Even with the weak euro we anticipate double-digit earnings growth for the last six months in total, which is likely to be higher in the fourth quarter than in the third quarter.

That concludes my comments. I'd like to now turn the call over to Chris, who is going to comment further on the Astra Tech integration and the orthodontics relaunch status. Chris?

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

Thank you Bret and good morning everyone. I'm going to take a few moments and provide some deeper insights into the recovery of our orthodontics business as well as a brief update on the Astra Tech integration efforts.

As Bret mentioned we initiated a rolling relaunch of our orthodontic products in the second quarter, and actually were able to move a bit faster in some respects than we previously expected. We raised and now have eliminated allocations or limits on most product lines, allowing customers to order in desired quantities.

We also have been able to reestablish supply to many of our international distributors, including providing them product to replenish their previously depleted inventories. We're moving forward with our efforts to gain back customers that we lost during the supply outage and our pace of customer recovery is in line with what we expected. We are pleased with a number of customers that have come back to us quickly now that we have consistent supply, but we also recognize that a number of customers will be harder to regain given their experience with competitive offerings over the past year. We anticipate that our competition will do their best to not make it easy for us to regain these customers, and as such we anticipate an aggressive fight at a street level over the next several quarters to gather back our customer base. We continue to believe that this will be a multi-year competitive effort to recapture our lost market share but we're pleased with our initial progress thus far.

We've also secured a revised supply agreement with our manufacturing partner that provides for continued access to the current portfolio, but also provides greater latitude relative to manufacturing, sourcing, and commercial purchase for both parties. In addition we've significantly expanded our R&D resources in the orthodontics area, which we think will pay long-term strategic dividends for us moving forward. In short, we remain extremely committed to the orthodontic space, and to be rebuilding a stronger, healthier orthodontics business for DENTSPLY. And looking forward as Bret mentioned, we anticipate orthodontics to be increasingly accretive over the next two quarters to both sales and earnings growth.

I'd now like to provide some brief comments on the Astra Tech integration efforts. As Bret mentioned, our country-specific integration efforts continue to be on track and we are pleased with the overall progress of the integration. We've completed the launch of our combined DENTSPLY implants organization in North America, and most recently in Iberia, and are moving forward with other countries between now and early 2013. Our sales training efforts are continuing and while there is always some level of disruption during these types of field integrations, we are pleased with the tenor of the organization as feedback remains positive regarding the strength of our combined portfolio of implant solutions.

One key positive synergy is the expanded focus on the Atlantis customized abutment platform and we're very pleased with the trajectory of this business. We're making capacity investments in Atlantis to support the additional sales momentum associated with the acquisition. We continue

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to believe that the combined digital solution platform that includes Atlantis customized abutments, ISUS customized bars and bridges, and materialized treatment planning software and surgical guides is a very powerful synergy for the combined implant business. We are very confident that each of these product platforms will benefit from the additional support of the combined business.

I'd now like to turn the call over to Bill Jellison, who will cover the financial results for the quarter in greater detail. Bill?

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

Thanks Chris. Good morning everyone. Just a couple of additional comments regarding our sales.

The 2012 second-quarter geographic mix of sales without precious metal content was as follows. The US represented 33% of sales, Europe was 45% this year, and the rest of the world was 22% of sales. The strengthening of the dollar compared to the second quarter of last year negatively impacted our top line growth ex-precious metals by 6.2% in the quarter. And the FX impact on earnings was less as we also benefited from favorable transaction in net investment hedges in the period, which helped to offset a portion of the negative variance in the quarter. We currently expect about a 6% headwind from current foreign exchange rates on the top line, and slightly less of an impact on the bottom line this year, with the largest negative impact occurring in the third quarter of the year.

As Derek mentioned and as you can see in our earnings release, the second quarter included a number of items which impacted our results. By excluding these items from our quarterly results, we believe the adjusted figures provide a more comparable picture of the Company's performance. Most of the following comments exclude the impact of these items.

Gross margins on an adjusted basis as a percentage of sales ex-precious metal content in the second quarter of 2012 were 59%, compared to 56.1% for the second quarter of 2011. When compared to the same period last year, this rate was positively impacted by favorable product mix and price increases.

Our product mix continued to be benefited by the strong gross margin rates of our recent acquisitions and from strong sales of endodontic products. FX, despite having a negative impact on sales and EPS in total, had a slight favorable impact on gross margin rates. The quarter also benefited from some additional positive manufacturing variances as inventories ended higher, therefore capturing some cost in the inventory. The inventory is expected to be reduced through the balance of the year, which should improve cash flow but will reduce manufacturing cost absorption.

Our recent acquisitions are expected to still have a positive mix impact on gross profit margin rates comparisons in the third quarter, but to a lesser extent as they are fully reflected in the Company's results. SG&A on an adjusted basis was $282.2 million, or 40.4% of sales ex-precious metals in the second quarter of 2012, versus 37.2% in the prior year second quarter, and down from 42.6% in the first quarter.

On a year-over-year basis our SG&A rates are running higher for two reasons. First our recent acquisitions have higher SG&A expenses as a percentage of sales than our base business. This will be mitigated somewhat as we complete our integration efforts over the next few years. Second orthodontic sales are still down slightly, however we have maintained the infrastructure of this business and are now also in the process of a full relaunch of these products. This year-over-year comparison with a higher expense level as a percentage of sales will continue through the third quarter when the acquisition impacts annualize and the orthodontic business begins to show year-over-year improvements.

Operating margins based on sales excluding precious metals on an adjusted basis were 18.6% in the second quarter, compared to 18.9% last year in the same period. As Bret noted, ortho and Japan had a neutral impact on EPS in the second quarter, and will have a positive impact on results in the second half of 2012 compared to last year.

Net interest in other expense in the second quarter on a reported basis was $13.3 million, compared to $4.6 million last year in the second quarter. This increase in expense resulted primarily from higher net interest expense associated with the acquisition of Astra Tech.

Our reported tax rate for the second quarter was 15.6%, however there are tax adjustments reflected in the rate. On an adjusted basis our operating tax rate for this quarter was approximately 23%, compared to an adjusted tax rate of 20.1% in the second quarter of last year. The tax rate was

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being adjusted in the second quarter of last year as we benefited from a decision to permanently reinvest more of our international income. We believe that a tax rate of approximately 23% is reasonable as well for all of 2012.

To better understand and follow some of the following comments you can look at the tables included in our recent press release, which reconciled performance from US generally accepted accounting principles, or GAAP, to adjusted non-GAAP performance. Net income attributable to DENTSPLY International in the second quarter of 2012 on an as-reported basis was $80.8 million, or $0.56 per diluted share, compared to $74.2 million or $0.52 per diluted share in the second quarter of 2011. As mentioned previously, these results include a number of items -- mostly associated with acquisitions and tax adjustments which are detailed in the press release issued this morning.

On an adjusted basis earnings excluding restructuring acquisition-related costs and other related items and tax adjustments in both periods, which constitute a non-GAAP measure were $88.5 million, or $0.62 per diluted share in the second quarter of 2012, compared to $80 million or $0.56 per diluted share in the second quarter of 2011, a 10.7% increase. The quarter benefited from solid internal growth and a substantial improvement in operating margins within our base business.

This quarter does include two positive benefits. Includes a benefit from the relaunch of orthodontic products, which included some reloading of international ortho dealers, previously expected to occur in the third quarter. The quarter also benefited from producing some additional inventory in two areas that we expect will be reduced to a more normal level by year end.

Cash flow from operating activities in the first half of 2012 was approximately $100 million, compared to $167 million in the first half of last year. Inventories increased to support the rebuilding of inventory for our orthodontic relaunch to support inventory levels during our integration activities, and to support two other key product lines. Cash flow was also negatively impacted by the timing of some tax payments that fell into the first half of this year. We expect cash flow to accelerate significantly in the back half of the year however.

Capital expenditures were $43 million in the first half of the year, with depreciation and amortization of approximately $68 million in that same period. We do expect capital spending will continue to run higher compared to recent years, as we are spending to support business and new product growth, including the additional capital to support growth and new product launches within the recent period -- or the recent year. Inventory days were 111 as of the end of the second quarter of 2012, compared to 104 days at the end of the second quarter last year. These levels also reflect the addition of the Astra Tech inventory, the build of the orthodontic inventory to support the relaunch of the product line, and to support two of the other key product lines.

Accounts receivable days were 55 days at the end of the second quarter of 2012, compared to 59 days at the end of the second quarter last year. At the end of the second quarter in 2012, we had $53 million in cash and short-term investments; total debt was $1.7 billion at the end of the second quarter.

In 2012 we have repurchased approximately $39 million of our stock, or approximately 1 million shares at an average price of $39. Based on the Company's authorization to maintain up to 34 million shares of treasury stock, we still have approximately 13 million shares available for repurchase. However, our primary focus will be on reducing our current debt at this time rather than share repurchase, other than potential repurchases to offset options.

As mentioned before, recent acquisitions have increased the volatility that changes in FX rates have on our sales and earnings as more of our sales and production is now located outside of the US. We are most impacted on sales by changes in the euro and our purchases and cost structures are most impacted by the euro, Swiss franc, Swedish krona, and also the Japanese yen. We are utilizing additional systematic cash flow hedges on certain transactions to help minimize the volatility that these FX fluctuations may otherwise have on our business.

At current exchange rates we expect to have a negative impact from foreign exchange rates for the remainder of 2012, of 5 to 7 percentage points on sales. The impact on EPS will be slightly less given our hedging techniques, with the greatest impact expected in the third quarter of this year.

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Finally as Bret mentioned, we are reducing our 2012 earnings per share guidance to $2.18 to $2.24 per share on an adjusted basis. This reduction is being made primarily to reflect the weakness of the euro and other european currencies, offset somewhat by slightly improved operating performance.

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)

Robert Jones, Goldman Sachs.

Robert Jones - *Goldman Sachs - Analyst*

So certainly does seem like things decelerated a bit. I know you guys talked about that in the consumables, implants, certain regions and categories. I was just wondering specifically relative to the changes in guidance, it sounds like a lot of that reduction is coming from FX but I was wondering if there is any portion of the reduced outlook that is from what we're seeing across some weakening demand out there.

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

Okay, good morning Bob. Good question. I think there's a number of factors that affect our change in our guidance for this year. Certainly the US has slowed a little bit than the market was in Q4 and Q1. I would call that slowing modest at this point and we will need to see the distributor's report to really confirm how modest it was, or if it declined at all. We only have of course access to our own numbers and who else has reported thus far, but it does seem like it weakened a little bit.

I would say when you take all the factors into account, most of factors come out in the wash, meaning there's lots of positive operational performance, there's expanding margins, there's good progress on the Astra Tech integration, and there's the ortho relaunch, there's some slowing of markets, but if you put those all together, they're coming out in the wash. The reduction in the guidance is coming directly from the decline in the euro, and the impact that has on us because a large portion of our business of course is in Europe.

Robert Jones - *Goldman Sachs - Analyst*

That's helpful. And then just hoping we can dig in a little bit more on the strong performance in the rest of world, I know you have shared some of the initiatives there in previous calls, but I was just wondering maybe if you could share specific categories, products, or countries that really helped drive that growth in the rest of world?

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

What I will say at the outset here and then Chris might want to elaborate on this some more, but what I'd say at the outset is we saw very strong growth in Asian, we've made some important investments there. And also Middle East Africa. So those regions in particular we saw very high growth. Of course this rest of world category is made up of both developed and developing markets, so there's a balance there, but we thought 8.1% growth across all that balance of regions was pretty strong performance and was getting us back to the range we had seen before. And Chris?

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

I would just comment Bob that the initiatives we spoke to I think on the last call in terms of dual branding, certainly the sales presence and some investments there, the clinical education that seems to be really driving I think the improvement if you will in the rest of world business, back to frankly where we've been but for the prior two quarters.

Robert Jones - *Goldman Sachs - Analyst*

Chris if I could actually, you did mention greater latitude and increased R&D in ortho. If I could just sneak this one in, I was just wondering if you'd maybe elaborate a little bit on that. Is the attention to move away from the current supplier? And then maybe just any order of magnitude around the investments needed there, that would be really helpful. Thanks so much guys.

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

No, obviously we have a long-term partnership with our supplier. And obviously that's been a very good partnership and I have every expectation it would continue to be. But obviously as we looked at it, we believe that something that provides a little greater latitude I think for both parties particularly in light of the fact that if we have the opportunity really on our end to reduce our dependence on a single source of supply, which I think is pretty important given what we've gone through the last year. Again I think they're an important supplier for us, they'll continue to be. And again, we look forward to moving forward with them, albeit with a little bit more latitude for both of us.

Operator

Steve Beuchaw, Morgan Stanley.

Steve Beuchaw - *Morgan Stanley - Analyst*

Bret I wanted to revisit your comments on the slowing of the US market that you highlighted early on particularly on economic exposure. It seemed like we were maybe in the third quarter of a volume rebound in the US after really a few years where volumes have been a little underwhelming. And what we saw with that rebound was a bit off cycle in terms of where patient flow was relative to broader macro, so I wonder what is it you think is different now about the macro outlook? Is it Europe, is it something about the US that's bringing us back onto cycle in terms of macro exposure?

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

That's a good question and a hard one to answer to be honest. Trying to take into account what's influencing a patient to do a procedure or not doing a procedure, particularly a discretionary procedure or premium procedure, so there's always difficult to nail that down to one or two things. I think what we hear talking to both other people in the market as well as customers and so forth, is there is a little bit more resistance to doing discretionary procedures that can be deferred, compared to what we were seeing six months ago. And I think it's basically driven by people's perception of where the economy is headed. More so then where the economy might be right now. But that's just speculation on our part really. There's no real way to confirm that's the case.

Steve Beuchaw - *Morgan Stanley - Analyst*

Thanks, I really appreciate that. And one follow-up on the european markets. I wonder if you could go into more detail on some of the core countries there, specifically what you're seeing in Germany, France, and the Benelux countries, clearly there's no major fall off there, but relative to the first quarter, could you give us an update on what you are seeing in terms of demand and patient volume trends on those particular countries? Thanks and I'll drop off.

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

Sure. I think rather than go through country by country, I'd just rather characterize it by region. Whereas in the south, we continue to see very weak conditions, in fact those markets I believe are still contracting. Whereas in the north, those markets are stable to growing slightly, so in total because the markets in the north reflect more of the aggregate market, the more the aggregate market I think on balance in Europe in total, including CIS, including the northern countries are able to offset the decline in the southern countries. And I'm not going to get more specific than that other than regionally we still see the split that we saw really for the last two years.

Steve Beuchaw - *Morgan Stanley - Analyst*

Great, thanks so much.

Operator

Larry Marsh, Barclays.

Larry Marsh - *Barclays Capital - Analyst*

My main question Bret was I think you all ready answered so I don't want to belabor it, because to reiterate what the previous questioner asked was, seems like traditionally you had all ready said you're lagging indicator of trends in the US market, it took you longer to see the downturn, and longer to see the upturn, and you felt good that you are starting to see that. It seems like what you are saying today is you're not seeing a dramatic change, it's just a heads up, the leading indicators what you're saying is a little bit difference in purchasing behavior. So it doesn't sound like your view of internal growth in US back half has changed a lot. Am I putting words in your mouth?

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

No, Larry that's a good way to describe it. I think when we look at the US market because it's mostly driven by employment -- dental insurance is mostly driven by employment. That seems to have moderated somewhat. We are not seeing the job growth that we saw let's say December through February. Which means we're getting less people coming into be covered again. But sequentially I'd say there's just a modest slowing of the market. I don't want to overstate it, because the market is still stable, it's still a growing market, we still see good I think there is still the patient flow. But I think just at the margins particularly in the discretionary procedures it may have slowed a bit.

Larry Marsh - *Barclays Capital - Analyst*

Okay. So it sounds like there's a slight moderation in your expectation of internal growth US, but not much.

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

I think that's fair.

Larry Marsh - *Barclays Capital - Analyst*

Okay. Second question is really on the quarter and then the puts and takes just to triangulate some of the things you guys are saying. I think Bret you had said the quarter itself you felt like was I don't know $0.05 or $0.06 -- I don't want to put words in your mouth versus consensus maybe above your own internal expectations, $0.01 or $0.02 came from the orthodontic relaunch. You had mentioned some benefit from operational

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initiatives and later I think Bill you talked about some benefit from inventory. So if we think about say a $0.06 upside versus say our number, maybe $0.01 or $0.02 from orthodontic, and $0.02 from operational and maybe $0.01 or $0.02 from inventory timing. Is that the right way to think of it?

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

No, I think it's difficult to do that. We're giving you our view of how we did versus our own expectations for the quarter and of course our quarterly phasing may be different than the streets. The second quarter is almost always the strongest quarter for us. If you just look at it historically when were the peaks in earnings, it's usually high in the second quarter then it's lower the third quarter because Europe basically disappears for six weeks in the summer, July and August. And we're expecting that to happen again by the way.

But versus our own expectations we came in $0.02 above it. I'd say about $0.01 of it was due to ortho being a little earlier than we thought and maybe $0.01 or $0.02 is due to stronger operational performance. Very strong operating margins and Bill did comment, we built a little inventory this quarter and that will be coming out in the back half of the year, so we probably had a little better absorption across our different operating facilities. But I think it's hard -- I think it's hard to bridge that to the $0.06 bead versus the street consensus, primarily because we phased. Our phasing has always been different than the streets was on this year.

Larry Marsh - *Barclays Capital - Analyst*

Okay. So currency really didn't hurt you in the second quarter? Relative to what you thought back in May?

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

No, and I'll comment on this, and I'll let Bill comment on it as well. Currency did hurt us this quarter, however the operating margin improvement in the base business, meaning not Astra Tech, not ortho, the base business was enough to overcome that this quarter. Bill you have any comments on currency?

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

We expected currency was going to be a little bit of a drag already in the second Q, it obviously got worse in the back half of that quarter. So we still ended up maybe $0.02 negative from FX in there, but I think as Bret mentioned, two of the operational related improvements, including a little bit of the inventory build as well as that ortho pull that ultimately was able to be shipped all ready in the second quarter versus the third quarter, also benefited us $0.02.

Larry Marsh - *Barclays Capital - Analyst*

Okay, great and then just to triangulate as best I can on the full year, your midpoint in your guidance is down $0.05. Obviously a big headwind currency third quarter down 13% year over year, so that's going to be a big drag, fourth quarter maybe not as much. So it sounds -- in our numbers currency was a little bit bigger impact second half, $0.02 than that. Is that the right way to think of it, and is some of that being offset by some of this operational benefit versus your earlier guidance?

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

There is more currency here than we've reduced the guidance for, meaning our operational performance improvement in margin accretion from Astra Tech, the ortho relaunch is offsetting some of the currency decline that we would've otherwise had. And in addition to that we have hedging programs in place that help moderate some of the currency effects as well. So less of the currency is going to drop through this year than the full effect on sales.

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Larry Marsh - *Barclays Capital - Analyst*

Right. So the good news is some of the benefits of operations are offsetting some of the drag, obvious drag on currencies, is what you're saying.

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

Yes, that's correct

Larry Marsh - *Barclays Capital - Analyst*

Okay, then finally, I just wanted to make sure I heard Chris correctly on the Astra Tech integration. We've had some real mixed signals so far as you said this quarter on implants. It sounds like you're saying you're growing a slight premium to the market, last quarter you said Europe was slightly down. Is the message here that the volume trends there in the quarter were again not substantially different than they were in the second quarter? And is the message on integration and product line rollouts still on track, consistent with what you had said previously?

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

Yes, Larry, I would say that the implant market -- I think the implant market volume wise is probably a bit directionally softer Q2 than Q1. At this point we've now got what three announcements from three of the five public players, and I think that's pretty indicative at least of those three, obviously will learn from the last two here as they announce shortly. In terms of the integration I do basically I think our results continue to be as Bret mentioned, above what we estimate market growth to be, obviously that will be confirmed here shortly. I think that's a really good sign in light of the integration.

Any time to go through an integration certainly of this magnitude, there's a lot of distraction and a lot of disruption. And I would say we went in expecting there to be some of that, and I think our team is doing a very good job managing the business through that. And I think overall while there are some bumps, we're overall very pleased with the progress, and certainly very pleased with the attitude, the mood, and really the energy from the organization, which I think is really the main thing that we certainly want to keep an eye on.

Larry Marsh - *Barclays Capital - Analyst*

Okay, very good. Thanks.

Operator

Brandon Couillard, Jefferies.

Brandon Couillard - *Jefferies & Company - Analyst*

Bill, any chance you could give us a sense of how you see the core revenue growth trends by geography developing in the second half? And what have you embedded in your formal outlook for the ortho Japan rebound given the faster than expected recovery? Should we expect something a little the better than flattish in terms of the revenue impact year over year?

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

Well I think two points there. First off we really don't give any projections on our expected geographic growth moving forward, but I think that with what you've seen here there's -- we are seeing improvements in some areas, but obviously the economic changes that are affecting the broader economy are still a big question. But we are still looking at the back half of the year pretty consistent with what we were looking at in the first half broadly.

From a ortho perspective, we pulled forward a little bit of the initial international dealer rebuilding of inventories in the second quarter, but from an overall perspective in ortho at this point we still would expect that we would definitely see year over year sales improvements in both the third and the fourth quarter. And we would also see earnings improvements on ortho in both the third and the fourth quarter of this year. And for the full year I think that we are still in expectation that we should be at least neutral if not slightly positive from an overall year over year comparison on earnings for ortho.

Brandon Couillard - *Jefferies & Company - Analyst*

Okay that's helpful. And then the revised EPS outlook appears to contemplate a little stiffer FX-related headwind than I would've anticipated. Are you assuming that the euro deteriorates further from here? And then can you give us a sense of why the relatively wide range for the currency impact to revenue for the year?

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

Well I don't think the currency range that we gave isn't all that big on currency in general. But we stated in the guidance that that is really reflecting a $1.21 to $1.23 range on the euro for the back half of the year, which is in essence consistent with where it's currently been running the last few days. From an overall perspective for the year we are expecting that currency is going to be probably in the 5% maybe 6% impact on the top line as Bret mentioned. And as it was mentioned on the call as far as the euro is concerned, the euro itself is probably closer to 12% to 14% worse when you look at it compared to the third quarter of last year. Keep in mind that's only one currency for us and also keep in mind that that's the full move of it, and we're only 60%, 65% international, so you've got to bring that down to that level.

But instead of 6.2% negative currency impact that we had in the top line in the second quarter, we would expect something probably a little bit higher than that in the third quarter, and probably a little bit lower than that in the fourth quarter at current rates.

Brandon Couillard - *Jefferies & Company - Analyst*

Thanks. And lastly with respect to the med-device tax, should we expect that you take the incremental pricing in September in line with your typical annual pricing? Have you finalized your plans there yet?

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

Sure. At this point in time we generally do a lot of our price increases already beginning at the beginning of the fourth Q, but this tax doesn't go into effect until January. So at this stage the way that we are planning on addressing it is probably in a two-tiered pricing increase level. We'll have normal price increases that take place but then for any locations or products that are impacted by the med-tech tax here in the US we will be doing an additional pricing increase effective as of the beginning of next year.

Brandon Couillard - *Jefferies & Company - Analyst*

Great. Thank you.

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Operator

John Kreger, William Blair.

John Kreger - *William Blair & Company - Analyst*

You guys mentioned inventory build a few times on the call. Can you just expand a bit on that? Was that all driven by the relaunch of ortho internationally or was there more to it than that?

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

Well I'll take a stab at that John and see if anyone else has something to add but there's two factors there. One is the ortho relaunch as you've noted, we built up inventory so we can do full customer service, and we would expect that to probably trend down over the back half of the year. We are also in the midst of the Astra Tech integration, so we're consolidating inventory points at different locations in the world. And thus, we ramped up inventory a little bit because we need to stock the new location before we deplete the old location, so that's having affect.

And then there are some other kind of one-off issues in other businesses that we are raising inventory temporarily in, which will come back out in either the back half of the year or the first half of next year. But we do view this level of inventory as a little bit above the normal range so we would expect to have to carry for the business, and we expect to get that cash flow back over the next let's say six to nine months.

John Kreger - *William Blair & Company - Analyst*

Great, and just to clarify, your comments on inventory reflect your inventory that you are carrying as opposed to inventory in the channel, is that right?

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

Yes. It's inventory on our balance sheet, right.

John Kreger - *William Blair & Company - Analyst*

Great. Thanks. Just stepping back, thinking about your adjusted geographic gross stats that you gave, it seems like the US had a notable slowing versus what you said in the first quarter, but rest of world notably better. If you look at those two big changes, in your view were they driven more by your specialty businesses or by your preventative and restorative lines?

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

Okay, just two comments here. One is the pace we had in Q4 and Q1 we were in the mid 7%s both quarters. It was a blistering pace. We were probably growing at least 2X market at that point and that was driven by what we've been talking about for 18 months, which is the new products that we launched in 2011, and to a lesser degree here in 2012. We have said at the time that that can't -- that's not sustainable, but that that's going to have to come down, although we think we can continue to grow above market, which I think we're doing right now despite having to overcome those product launches now that are in the baseline.

We do believe on top of that that the market probably did slow or moderate a little bit. I don't think it's-- I think it's still growing nicely. But maybe not at the pace that we had in the fourth quarter and the first quarter this year -- fourth quarter last year, first quarter this year, which is consistent with the comments we made on the earlier question.

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And then lastly affecting our -- in particular our first quarter growth was we did see lower small equipment sales in the US, in part due to product launches last year where we're coming up against the base now, and in part because we think that that may be the element of the market that is slowing or has slowed or moderated the most. Certainly that part of our business is deferrable, a dentist doesn't have to buy that equipment. They can make do with their own equipment for a while longer if they need to. So in our idea and our mind that's what happened. We think we are still probably growing 1.5 X market something like that. Not quite the pace we were before, but still good growth compared to the overall market.

John Kreger - *William Blair & Company - Analyst*

Great, and one last question. If you think about the various puts and takes of your ortho business, do you think longer term that can be as profitable as it was before for you more or less? I'm thinking about on the one hand I assume there's going to have to be some more aggressive pricing strategies to retake share, but on the other hand it sounds like you've got a new, more flexible manufacturing agreement.

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

Well I think there are two important dynamics there. We're entering -- basically reentering a market which is a competitive market already and we're going to be going to take market share from our competitors who aren't going to want to give it up. And we fully believe that people will be aggressive in the marketplace and we're going to have to respond. Longer term we've historically only had a distribution margin in this business, longer term through our own innovation and other arrangements we expect we will be able to pick up a little bit more margin. So longer term I would think this would be a more profitable business than it has been in the past.

John Kreger - *William Blair & Company - Analyst*

Great, thank you.

Operator

Jeff Johnson, Robert W Baird.

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

Bret was wondering, not to harp on this but if we can focus on second half guidance here again. With FX maybe incrementally a $0.05 hit or so, and you're trimming guidance by $0.05, it all seems to make sense. What I can't get straight in my mind is the gating of guidance with this quarter's upside versus the second half now where that's being guided.

As I think about things, you guys did $0.97 in the second half last year, you're guiding to about midpoint $1.07 this year in the second half, that has maybe $0.05 or $0.06 of year over year currency headwind, but you are also picking up about $0.10 or so from ortho coming back, you should have some accretion in there from Astra Tech. Yet that core guidance looks like it's only about $0.05 -- or 5% once you adjust for those factors. So what am I missing there in the second half guidance?

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

Two things I'd keep in mind here, and Bill you might have some additional comments on this, but keep in mind that our phasing of the quarters was not what the street's phasing was. The second quarter is almost always our strongest quarter, so we had more income in our base model in the second quarter and less in the third quarter than the street had. And I think that's confusing this issue a bit.

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The other thing to keep in mind is that Astra Tech is hitting our targets, it's doing very well, but we had Astra Tech in the baseline for four months last year, and in the back half, the months that we didn't have were July and August which were not typically robust months for sales in Europe. So Astra Tech is proceeding fine, it's going to be accretive, it's hitting our targets, et cetera, et cetera, but it's in the baseline now for the last four months of the year.

The ortho recovery is as you said. We did pick up -- we dud pull a little bit into the second quarter, but we're going to have more earnings growth from Astra Tech in the back -- from orthodontics in the back half of the year. And the currency hit that you described is actually greater than you said. It's just that we're going to be able to mitigate part of that currency hit through the hedges and through better operational performance. Bill did I miss any key points?

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

Just one point of clarification Jeff. What did you actually think or say about ortho in the back half?

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

Well if you're saying it should be flat to accretive for the year and you've lost about $0.03 or so this year so far year to date on it given -- about flat or down $0.01 or $0.02 I guess year to date so maybe flat or up $0.01 in the second half. But last year it was what I think a $0.10 drag in the third and fourth quarter combined, so a $0.10 drag last year versus flat this year seems like that should be adding quite a bit.

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

No, no, no. What you've got to think of is that the improvement that we're talking about is off of last year, right. So if we were down roughly $0.05, $0.04 to $0.05 in ortho each quarter last year, we will be improving off of that level to offset the slight negative that we had in the first half of this year, but we aren't offsetting that and being flat. We aren't making all that back up in the second half of the year. So think of it that we should be improving by a few cents per quarter in ortho, but we're still going to be down in comparison to where we were in 2010 in the back half of the year.

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

Okay. That's helpful, and maybe we can follow up on currency off-line then Bill. Last question for me, or two last questions for me. Any updates on either lithium disilicate product for launch anytime in the upcoming quarters, and the millable cobalt-chrome material?

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

I guess I'd just comment loosely on the lab side Jeff in terms of new products. Those are two obviously pretty attractive areas to the lab business. They're areas we're obviously that we're interested in. We've got a pretty aggressive new product portfolio on the lab side that we would look forward to showing, at some point here in the next few quarters. But I'm not going to comment on those two more specifically or specific timing.

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

All right. Thanks Chris, and then last question. Bret you had mentioned that distributors, or that your inventory levels went up on your balance sheet, that wasn't a distributor comment. I think the last two quarters you felt like distributors were maybe carrying a bit less inventory than they had historically. Did that change at all this quarter? Do you still feel like they're a little under historical range or any insight there?

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

Yes, I think certainly we didn't build inventory in the channel this quarter. We might have depleted a little bit of inventory in the channel, but I don't think there's any dramatic change. Chris is a little bit closer.

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

I would say Jeff I absolutely agree with that. I don't think we built in aggregate by any stretch. I do think that some of these distributors are becoming increasingly sophisticated in terms of how to operate with a bit less. I don't know that I would say that there's necessarily pent-up demand if you will for additional inventories at a dealer level. I think they've come down a little bit, and they're going to remain generally at that level, and I think our shipments are in aggregate probably pretty reflective of what we assume aggregate consumption to be. Obviously there's puts and takes in any individual business, but I think in aggregate it's a pretty consistent.

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

Fair enough, thanks guys.

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

I would add to that Jeff that that comment excludes the orthodontics business because certainly we added inventory to the channel in orthodontics.

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

Fair enough. Got it.

Operator

Yi-Dan Wang, Deutsche Bank.

Yi-Dan Wang - *Deutsche Bank - Analyst*

I have a few questions on the dental implant business. Would it be fair to say from your comments that your globally the dental implant business slowed by about 2% or 3% versus last quarter? And if so, if you could give us some sense of how that developed in the key regions? And to what extent those numbers are being impacted by the disruptions within the Astra Tech integration?

And then hopefully if you have a crystal ball what would your expectations be for this business for the rest of the year? We did see comps ease in the back half of last year, particularly in Europe. So any comments there would be great. Thank you.

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

Okay. This is Bret I'll take a stab at a few of these and if Chris or Bill want to add in they can. Your first question was whether our implant business slowed by 2 to 3 percentage points in the quarter and the answer is no. It was a little less than that. In the first quarter we were mid-single digits, but we said we were at the low end of the range of mid-single digits, and in this quarter we slipped to what we call low-single digits, but the impact wasn't -- the change wasn't in the 3% category, it's much lower than that.

How did it develop -- from the first quarter to the second quarter I think there has been some slowing of the market. From the results of the two other implant companies that have reported, I would say the slowing has been most notable in the US. Although the regional growth rates remained

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what they were and that is the rest of the world categories, the highest growth rates, the US is next, and Europe seems to be flat to down, and that continued in the second quarter. So I think the European market in total is contracting although it varies widely by country or by geographic region with the southern part of Europe being most impacted.

As far as how this was impacted by the Astra Tech integration, it's hard to say. We had our reps out in the field doing training, we had changes in territories, some changes in customer relationships. That's always very, very difficult although we go about it in a very thoughtful way I think, and how we do these integrations. We don't rush to judgment on how it's going to be done, we really work through the details before we implement. So I think it is happening and it does have an impact, but we think we've managed our way through it pretty well.

And your last question was what are our expectations. At this point I would expect the US market to continue to grow. If I had to guess mid-single digits for the balance of the year. I think Europe in total is probably going to continue to contract slightly for the rest of the year. And outside of those two regions in the rest of world category I think we will see some continued pretty strong growth. That was a lot to go through.

Yi-Dan Wang - *Deutsche Bank - Analyst*

Pretty sure you covered everything. Just a clarification on the US expectation for integrating mid-single digits, is that how it ended in the second quarter, or will that indicate a further slowdown from where we were in the second quarter?

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

If I had to guess I will know more when we see Nobel and Straumann report, but if I had to guess I would say the US market today is growing somewhere between let's say 4% and 7%, and I'm expecting that to continue.

Yi-Dan Wang - *Deutsche Bank - Analyst*

Okay. And then a question on the non-dental part of the Astra Tech business. How did that business do in the quarter? And do you expect to release any new products at the upcoming ISCoS conference in September in London?

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

Okay, that business is doing very well continues to perform very well and meet our expectations. We do like that market. It's a very stable growth market, good consumable products, and many of them single use and so we do find that attractive. I'm not going to comment on new product launches. We tend to not do that for our dental business or this new business in advance of them being shown and launched at shows because we'd just as soon wait for that, so I'm not going to comment further on that, but this is a mid-single digit growth business. It would've been accretive to our growth rate if it'd been internal growth for this quarter and continues to perform very well.

Yi-Dan Wang - *Deutsche Bank - Analyst*

Okay, thank you very much.

Operator

Scott Green, Bank of America Merrill Lynch.

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Scott Green - *BofA Merrill Lynch - Analyst*

Operating margins came in ahead of what we were estimating. Could you estimate some attribution for how much of the operating margin expansion year over year was due to some of the main factors you highlighted such as strong execution in the base business, versus temporary inventory absorption, or FX, or Astra, or however you would like to outline it?

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

Well I think we said that Astra Tech mix is definitely a positive. But even excluding the Astra Tech mix, we were nicely positive for both our base business, which includes both a slight benefit from the FX impact -- FX is probably in the 20, 30 basis point improvement in that rate or so. But keep in mind that that's a positive on gross margin rate, but it's a negative on the bottom line because of the translation impact.

But apart from that, the base business still performed very nicely, and I would say that that's probably falls into two parts. Both because of some additional favorable mix with some of the businesses that performed well in the period, but also because as we talked about some of the additional overhead absorption that was taking place, because the inventory build that also benefited that rate a little bit and it's going to -- that piece of it we would expect to fall back out in the back half of the year.

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

Just to clarify I think the AT was probably dilutive -- it was dilutive to the -- in terms of the mix impact on operating margins but accretive on the gross profit line, just to clarify.

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

All those comments that I just made were gross profit related.

Scott Green - *BofA Merrill Lynch - Analyst*

Yes. Okay. Can you give us then some comments on operating margins, so remind us on how you reported what the improvement was year over year in operating margin? And then if you could get some sort of attribution as best you could on that line item?

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

Sure the operating margin was actually down year over year by about 30 basis points, virtually all of that and then some was because of the mix from Astra Tech. The broader-based base business also performed better at the operating margin rate, and we also as Bret mentioned had a nice operating margin rate improvement sequentially between the first and the second quarter.

Scott Green - *BofA Merrill Lynch - Analyst*

Okay, and then how do you see that trending going forward?

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

We obviously don't make projections on what we see moving forward associated with that, but I would say that two comments that we did make, one is that on the gross margin rate you should still see a favorable mix obviously occurring in the third quarter because the Astra Tech acquisition will then be fully integrated into the -- or fully into both base periods where the fourth quarter you will then show year over year comps that are equivalent to each other. But then we would also expect that from in operating broader-based operating margin rate that you're probably still

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going to see an operating margin rate drag in the third quarter, again because of some of the comps on both the ortho business and also the Astra Tech business. But then beginning in the fourth quarter you should begin to see some year over year improvements again.

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

This is Bret. I would add to that because this is important point. With a large business in Europe -- a large complement of our business in Europe, historically what we've seen is operating margins will decline sequentially from Q2 to Q3 because you have less sales and you've got the same fixed cost, and we would expect that to happen again this year. We would expect operating margin sequentially to moderate a little bit in the third quarter and then go back up in the fourth quarter.

Scott Green - *BofA Merrill Lynch - Analyst*

Okay that's really helpful. And then the last quarter or two you mentioned in rest of world that dealer inventories were a bit higher and you were working on lowering those inventories by raising prices. I was hoping you could give us an update on where you believe inventories in those two regions stand, and if you believe that the rest of world growth this quarter is kind of a true run rate number we should think about going forward.

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

It's Chris. I think it's pretty indicative. We again -- it's such a broad geographic area that you've got some puts and takes. But I would say in aggregate we believe that the channel inventories in the quarter were -- ended the quarter where they started, and from that standpoint I think that's again, I think that growth rate is pretty indicative of what we think the sell-through in aggregate was. In individual countries there may be a little bit of give and take due to some promotional timing, but by and large I think that's pretty indicative.

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

Scott I would add to that that we did have those two countries in the fourth quarter, we said we were bringing inventory down and then in the first quarter this year we had one of those countries still liquidating inventory in the channel, but I think that's run its course now.

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

One other point to just make there is that as Chris and Bret mentioned before, no real change in inventory levels within the quarter in comparison to a year ago in the changes that were made in that same quarter. And the second point is that inventory in the channel is definitely noticeably lower at the end of 2012 second quarter than it was at the end of 2011 second quarter.

Scott Green - *BofA Merrill Lynch - Analyst*

Okay. Great. Thank you very much.

Operator

Glen Santangelo, Credit Suisse.

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Glen Santangelo - *Credit Suisse - Analyst*

Bret maybe if I could just elaborate a little bit more on some of the comments you made on Europe. You gave us fair-minded detail on the US market, but could you elaborate a little bit more on Europe in terms of what you're seeing in the growth rate there this quarter versus last quarter. Clearly there's a lot of government-sponsored healthcare over there, but are you seeing anything in terms of austerity measures, anything that makes you incrementally more cautious or more optimistic as we approach the second half?

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

That's a great question Glen and almost unexpected we don't see a lot of difference. If you look at where our growth rates were by category as mid-single digits in the specialties, it was mid-single digits in the consumables, and it was slightly negative in lab, but that was because the alloy market continues to contract and without alloys we were positive in lab and continue to be.

I think it's important to probably point out that if you go back and look at the comps in Europe, they were a lot tougher in the first half of the year, the period we now have behind us, and they'll get easier in the back half of the year. So although we are not really encouraged that they're sorting out the economic problems there, we view our own business as pretty stable, we know it's growing well above market, and we look for continued -- to continue to take market share in the back half of this year.

Glen Santangelo - *Credit Suisse - Analyst*

And then maybe if I could just ask one follow-up, a lot of questions on the Astra Tech acquisition. Now that you have almost anniversaried that announcement, a year ago you gave us the initial guidance that it would be about $0.12 to $0.17 accretive. Have you pretty much been right in line with your original expectations? Has it been a little bit better, a little bit worse? How would you characterize it almost at year end?

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

I would characterize it overall we're in line with all the expectations that we put forth for the business. Operationally we're doing very well. The integration is going well and we're moving along there.

Certainly one negative I would say is I would say the implant market is probably not growing as fast as we had anticipated at the time of launch. We've got some leverage we can pull to offset that. And the synergy potential here is high and perhaps higher than we thought originally.

So on balance, we view the acquisition very positively. It's delivering value. We are always at some point at the whims of the market here. I'd feel a lot better if the dental implant market was growing double digits, but it's simply not growing double digits right now. So we have to manage within that environment and I think that we are doing reasonably well.

Glen Santangelo - *Credit Suisse - Analyst*

Okay, thanks for the comments.

Operator

At this time, I'd like to turn the call back over to our speakers for any additional and closing remarks.

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

Thank you everyone. Those were good questions and that concludes our conference call today. Thanks for your interest in DENTSPLY. If you have any follow up questions, I'm around to take your calls. Thank you. Bye.

Operator

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

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