

FINAL TRANSCRIPT

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XRAY - Q3 2011 Dentsply International Inc Earnings Conference Call

Event Date/Time: Oct. 27. 2011 / 12:30PM GMT



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PRESENTATION

Operator

Good day. Welcome to the DENTSPLY International third quarter 2011 earnings call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Mr Derek Leckow, Vice President of Investor Relations. Please go ahead, sir.

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

Thank you very much, Alisa, and many thanks to each of you for joining us today to discuss DENTSPLY International's third quarter 2011 results.

Joining us on the call from our location in Europe is Bret Wise, Chairman and CEO And I'm here in New York with Chris Clark, our President and COO, and Bill Jellison, our Senior Vice President and CFO. Each of us will have some prepared remarks, and then we'll be glad to answer any questions that you may have. I hope you all had a chance to review our press release and

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supplemental materials, which we issued earlier this morning. A copy of the press release and these materials are available for downloading on our website, www.dentsply.com, in the Investor Relations area.

Before we get started, it is important to note that this call may include forward-looking statements involving risks and uncertainties. These should be considered in conjunction with the risk factors and uncertainties that are described in our SEC filings. The Company undertakes no obligation to update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this call. And a recording of this call in its entirety will be available on our website.

As you can see in the release, our results this quarter reflect the Astra Tech acquisition. They include a number of non-recurring items and a substantial increase in non-cash amortization of acquired intangibles. 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 on the non-GAAP reconciliation tables contained in the release. You'll note that our forward-looking earnings guidance also reflects results excluding all deal-related amortization charges. This information is also highlighted in the supplemental materials we have provided on our website.

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

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

Thank you, Derek, and good morning, everyone. Thank you for joining us on our call this morning.

This morning, we are very pleased to announce record sales for our third quarter of 2011. As noted in the release and as Derek mentioned, our results in this period, of course, are heavily influenced by the Astra Tech acquisition, including a number of non-recurring items and also the impact of the product outage in our orthodontics business. Accordingly, throughout the call, we'll provide you with insights into what our results would have been without these items. We'll also update you on how we see the global dental market developing at this point and provide you with some updates on both the Astra Tech integration and the status of our orthodontics recovery plans.

First, from a revenue perspective, we recorded revenue, which was a record revenue for our third quarter, of \$619.8 million as reported and \$563.8 million ex precious metals. Total sales growth ex-PM increased 14%. That's the strongest growth rate that we've seen since second quarter 2008. Our constant currency growth was a positive 9.6% in the quarter, including a negative internal growth of 1.1%. However, as you know, that's heavily influenced by the product supply outage in our orthodontics business. And our acquisition growth in the period was 10.7%, reflecting the Astra Tech acquisition for 1 month, as well as 5 other smaller transactions that we completed in the last year. These growth rates, of course, are inclusive of our Japanese and our orthodontics business, both of which are heavily impacted by the natural disaster that occurred in Japan in March. If you look at the internal growth excluding the sales into the Japanese market and orthodontics, the internal growth rate was positive 3.6% for the quarter, and constant currency growth was over 15% for the quarter.

Our internal growth benefited from mid single-digit growth in both the chairside consumable category and also our specialty products. And, of course, that excludes the orthodontics products. That was offset by a slight negative internal growth number from the prosthetics group. Currency translation was also positive in the quarter. It added 4.4% to sales. Total growth through 9 months is now 9.5%, including constant currency growth of 5.0%. Internal growth through 9 months is a positive 0.9% and plus 0.39%, excluding orthodontics and our sales into Japan.

For geographic internal growth, I want to give it to you both as reported for the quarter and then also separately without orthodontics and the effects from the market in Japan. So as reported, internal growth was a negative 2.3% for the US, a negative 3.8% for Europe, and a positive 5.3% for the rest of the world. Again, that's heavily impacted by the supply outage in orthodontics, so excluding orthodontics and our sales in Japan, internal growth for the quarter was a positive 3.2% in the US, a positive 0.3% in Europe, and a positive 10.8% for rest of world. And in Derek's opening remarks, he commented that there's some supplemental



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information available on our -- at our website, which includes the internal growth, both with and without the orthodontics and Japanese effect.

Looking at these results, again, ex ortho and Japan, there are a couple of, I think, obvious implications. First, the US market has clearly improved, at least from our perspective it has. We saw good growth year-over-year in consumables and specialty, again, excluding orthodontics, of course. And lab was also positive. In Europe, it's also clear that the market there overall has slowed a bit. However, it's important to note that the extent varies quite a bit by region and product class.

Our results in Europe were impacted by more than a full percentage point by the decline in precious metal alloys -- the market decline in precious metal alloys, as volumes in that market have declined substantially on record high gold prices. Also, I suspect it's not surprising that there continues to be some rough market dynamics in Southern Europe, but conditions in the Northern countries seem much more stable. Given the economic turmoil we see in the southern regions of Europe, we believe there is some continued risk of slowness in that region for the rest of the year, and we've reflected that in our updated guidance that we're providing today. With respect to the rest of the world, our 10.8% internal growth, again ex ortho in Japan for the quarter and 10.6% year to date, reflects continued strong opportunities in many dental markets throughout the world. We're seeing good growth rates in the Pacific Rim, Latin America, Middle East, and Australia. So, these are pretty diverse markets, of course, but to us in 2011, many of these are moving in the right direction.

Overall, despite some doom and gloom talk about the global economy, dentistry continues to chug along as it has in the past, pretty resistant to economic fluctuations. As far as our own results are concerned, we continue to be pleased with what we see as above-market growth overall, again, ex the orthodontics outage, and we're particularly happy with the performance of our new product pipeline. I would say customer reaction to the range of new products we've launched this year across various of our strategic business units has been really positive.

With regard to earnings, we're pleased with the results, which were slightly better than what we had expected. Earnings per share on a GAAP basis were down slightly, but this is a pretty messy quarter, with the impasse from the acquisition and the orthodontic supply headwind and several other items of note, of course. Bill's going to provide you with some details on these items, as well as a bridge to our non-GAAP results, so I'll be brief here. But overall, on a non-GAAP basis, EPS was \$0.46 per share. That's essentially the same as last year. This is after a \$0.04 to \$0.05 per share reduction from the orthodontics business and the business in Japan. So if those businesses would have been flat with the prior year, our non-GAAP earnings would have been up approximately 10% for the quarter.

Regarding the orthodontics recovery plan, Chris is going to speak to this in more detail in a minute, but I think in general, it's important to note that it feels like we're getting very close to an inflection point in this business. I think the earnings drag the next quarter may be a little higher than in the third quarter, but we expect to see sequential improvement in results as we enter next year. We'll have some tough year-over-year comparisons for the next, let's say, 2 to 3 quarters. But we believe this unit will become a source of earnings growth again in the back half of the year -- back half of next year, as we recapture market share.

We're also very happy to have closed the Astra Tech transaction earlier than we had previously thought possible. Our 2 teams are working very closely together on integration and prioritizing our opportunities. I think it's also fair to say that having now spent close to 2 months in the integration, we're very enthusiastic about the opportunity. And likewise, we're very comfortable with the assumptions we made in the transaction, including the accretion numbers that we had provided to you previously. We remain confident this transaction will be accretive, even in 2011 without substantial synergies, and of course, we expect the earnings growth to accelerate thereafter. In our reported results, we, of course, include all of Astra Tech and acquisition growth, but had we reflected their organic growth in September, the one month that we didn't own them, of course, it would have been accretive to the growth rates that we're reporting to you today. Overall, I would say on the Astra Tech acquisition, it's going very well at this point.

Lastly, on earnings guidance, this quarter we're reflecting guidance excluding the amortization of purchase intangibles from acquisitions, as Derek had noted. For all of our acquisitions prior to July 1, 2011, this amounts to about \$0.01 per share per

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quarter, or about \$0.04 per year. So, given that this was not in our prior guidance of \$1.92 to \$2 per share for all of 2011, you should think of that prior guidance as now being \$0.04 higher, or \$1.96 to \$2.04 per share for all of 2011.

Now, today, of course, we're increasing that guidance to \$2.01 to \$2.07 per share for the full year, reflecting, I think, a number of factors. These include, on the positive side, accretion from the Astra Tech acquisition, growth prospects for the remainder of the year in the US and the rest of world regions, and slightly less of a drag than we previously expected from the orthodontics and Japanese business for the full year. On the negative side, we can now see the conditions in Europe will likely be a bit slower, and the effects of currency are likely to be much less positive in the fourth quarter than what we've seen thus far for the year. But overall, we're pleased to be increasing the guidance by \$0.05 on the low end and \$0.03 on the high end for all of 2011.

That concludes my prepared remarks. I would like to now turn the call over to Chris, who is going to provide us with an update on the orthodontics recovery plan and also the Astra Tech integration. Chris?

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

Thank you, Bret. Good morning, everyone. I'm going to take a few moments, as Bret mentioned, and try to provide some deeper insights into our progress on the orthodontics front, as well as an update on the integration efforts relative to Astra Tech.

With respect to orthodontics, we're receiving increased shipments from our key Japanese supplier, although I should note that this improvement continues to be gradual. You may recall that I mentioned on our last call that we had just received an initial shipment of self-ligating product from our supplier. We are now generally receiving weekly shipments of both self-ligating and non-self-ligating products, although at levels well below our requirements and our historical levels. We're basically, at this point, receiving more frequent but still only partial shipments. Our supplier is continuing to make efforts to expand capacity, and we continue to anticipate return to full availability across the various product lines sometime during the first half of next year.

To attempt to help bridge the gap on the non-proprietary products that we receive from them, we are continuing in the interim to market alternatively sourced product received from other suppliers marketed under the Resolve brand name. We're currently allocating available product from our Japanese supplier by geographic region and by product line, as we want to ensure we can meet as high a percentage of demand as possible in an individual market for specific brands.

As we enter the fourth quarter, I think we're in better shape than 3 months ago, as we entered Q3 with basically close to a complete product outage from our Japanese supplier. Now, we are receiving consistent, albeit incomplete, shipments, and we expect this to gradually improve as we move forward. Excluding the impact of a particularly tough comparison this coming quarter, we believe we should begin to see sequential improvements in the business. Due to the stronger prior-year period results, the sequential improvement will likely be masked in the fourth quarter but should be more evident moving forward from there. To summarize, I think we're making the gradual sequential progress that we anticipated previously, recognizing that this will be a multi-year recovery effort to get back the market share that we enjoyed prior to the Japanese natural disaster.

Before moving off of ortho, I would like to take a moment and publicly commend our orthodontics team for their dedication to help our customers through this difficult period. Their professionalism and focus have been exemplary and reinforce our commitment to ensure that we keep the right organization in place to lead us back to strong above-market growth as the supply situation improves, recognizing that this does create a negative short-term impact on operating margin.

I would now like to provide some brief comments on the Astra Tech integration efforts. We continue to be very impressed with the caliber of the Astra Tech team, as well as very pleased with the similarities between the cultures of our two companies. Their commitment to innovation and to clinical research, for instance, really mirrors our own. These similarities will certainly pay dividends for us as we move forward.

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With respect to the integration process, we have initiated a joint integration team with dedicated resources from both DENTSPLY and Astra Tech with the support of external consulting resources, all focused on maximizing the value of the transaction. Their efforts are focused on identifying and implementing the optimal structures and processes to maximize the value of both the dental and the healthcare businesses, achieve our sales and operating synergy objectives, and position the now much larger implant business to further increase market share in the premium implant segment moving forward.

I would characterize the approach of both the Astra Tech and DENTSPLY teams in this process as both very engaged and highly collaborative, and the process has a lot of positive energy focused on the significant opportunities created by the transaction. Our assessment is that these opportunities before us are even more compelling than what we anticipated through due diligence, particularly with respect to the aggregate dental implant and digital dentistry portfolios. I will also add that we are pleased with the business performance of both the Astra Tech and our own implant business during this initial integration period, as the teams are capably juggling the demands of the ongoing business for the additional focus on integration activities.

While we have not yet seen announcements of Q3 results from some of our public implant competitors, both the Astra Tech and Friadent implant platforms grew upper mid single digits organically during the third quarter, indicating that both implant portfolios are continuing to gain market share. The urology business also continues to perform well, with steady growth behind the new compact low fric catheter in particular.

I look forward to providing additional updates as to our integration efforts on future quarterly calls. I would now like to turn the call over to Bill Jellison, who will cover the financial results for the quarter in greater detail.

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

Thanks, Chris. Good morning, everyone. Bret already discussed our sales growth within the quarter, but I would like to add a couple of additional comments. First, our geographic mix of sales ex-precious metals in the third quarter of 2011 included the US at 36%, Europe represented 40%, and the rest of the world was 24% of sales. Rest of the world is now nearly 25% of our total sales. These regions continue to gain importance, as their growth is expected to continue to outperform US and European markets. Our sales mix will shift a few points more once Astra Tech is fully included for the entire period, as its sales are, obviously, more heavily weighted within Europe.

Despite the recent strengthening of the dollar within the quarter, we still benefited from a slightly weaker dollar year-over-year in the third quarter, benefiting our top line growth by 4.4%. Our earnings per share also benefited from the translation benefits of a weaker dollar, but are being partially offset by higher transaction-related impacts, as we sell many products produced in Europe to other parts of the world. This is negatively impacting our gross profit margins within the period.

The acquisition of Astra Tech does increase the volatility 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 corona and also the Japanese yen. We will be utilizing additional systematic cash flow hedges on certain transactions in the future to help minimize the volatility that these FX fluctuations may otherwise have on our business, and at current exchange rates, we expect the fourth quarter impact of exchange to be closer to neutral on our bottom line than the positive impact we have had in the first few quarters.

As Derek mentioned and as you can see in our earnings release, the quarter included a number of items which impacted our results, which we have identified as non-GAAP adjustments. Most of the following comments exclude the impacts of those items. Gross profit margins on an adjusted basis as a percentage of sales ex-precious metal content in the third quarter of 2011 were 55.9%, compared to 55.7% for the third quarter of 2010.

When compared to the same period last year, we were positively impacted by improved pricing and product mix, as we benefit from stronger gross margins in the Astra Tech business. However, these benefits were nearly offset by negative impacts of

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foreign exchange movements. The negative impact of foreign exchange rates on the gross margin rate in the quarter was approximately 80 basis points. So, on a constant currency basis, gross margins were up nearly a full percentage point on an adjusted basis. Astra Tech is expected to have a positive mix impact on gross margin rates over the next year, as this business, again, is consolidated into the Company's results.

Our SG&A included approximately \$13 million of acquisition and integration expenses and other adjustments. Absent these costs, SG&A on an adjusted basis would have been \$218 million, or approximately 38.7% of sales, ex-precious metals within the third quarter, versus 36.6% in the prior year's third quarter. Both the impacts from supporting our ortho business during the supply outage and the addition of recent acquisitions, will have a negative impact on this percentage rate until this time next year, when these items are fully reflected in both years. Astra Tech, which now runs with much higher SG&A expenses than our base business, is expected to have a greater negative mix impact on SG&A expenses as a percent to sales over the next year, as this business, again, is fully consolidated into the Company's results. Without the impacts of ortho and the Japan situation and our acquisition expenses, we would have been about flat as a percentage of sales in the period on an adjusted basis.

Operating margins based on sales, excluding precious metals on an adjusted basis, were 17.2%, compared to 19.2% last year in the same period. These rates were negatively impacted this year from the cost incurred supporting the infrastructure of our orthodontic business, impacts of FX movements, and from the combination and higher expense levels and recent -- of recent acquisitions. Astra Tech is also expected to have a negative mix impact on operating income rates over the next year, as its business is consolidated into the Company's results and as their current operating performance is below DENTSPLY's operating income levels as a percentage of sales. We expect that this impact will be mitigated over time, as we realize the benefits of synergies of the combined businesses.

As Bret note, our Japanese natural disaster negatively impacted our earnings per share by approximately \$0.04 to \$0.05 in the third quarter. This impact will likely be approximately \$0.06 per share in the fourth quarter of this year, as it was a stronger quarter for our ortho business last year. It is expected to begin to show sequential signs of improvement as we finish up the year and also enter into next year. Even with sequential improvement, though, we expect this business will have a negative impact on results in the first half of next year, measured on a year-over-year basis.

Net interest and other expense in the third quarter on a reported basis was \$20.8 million, compared to \$5.3 million last year in the third quarter. This increase in expense resulted primarily from net interest expense associated with the acquisition of Astra Tech and approximately \$12 million of expenses associated with the closing of that transaction, which we highlighted as an adjustment for our non-GAAP EPS. We were also slightly benefited by higher interest income, as rates have increased slightly from last year. During the quarter, we had a successful closing of our acquisition of Astra Tech and the financing associated with debt transaction. The transaction was financed with approximately \$650 million of cash and approximately \$1.2 billion of additional debt, primarily financed by issuing public debt with maturities ranging from two to ten years at an all-in average cost of approximately 3.6%.

Our reported tax rate for the quarter is not really meaningful, as there are significant tax adjustments that we remove from our non-GAAP numbers. The most notable of this is a \$47 million tax benefit that is being recognized based on the expected recovery of net operating tax loss carry-forwards that we will now likely recover as a consequence of the Astra Tech acquisition. On an adjusted basis, excluding tax adjustments, our operating tax rate for this quarter was 23.8% and year-to-date is now 23%.

The tax rate continues to have a slightly favorable impact compared to last year, and is the result of two items. First, we are benefiting from a more favorable geographic mix as our US base income has been reduced due to the impacts of a weaker dollar and the negative impacts of our supply outage of orthodontic products. We expect this impact will gradually go away, as our sales and earnings in this business are rebuilt over the next few years. We are also benefiting from our recent acquisition of Astra Tech. With this acquisition, we will be able to more effectively deploy our cash flow and as a result, much less cash will be taxed when repatriated to the US, which is resulting in a lower average tax rate in 2011. We also believe this rate will be reasonable, when looking toward next year, based on current tax laws.

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The announced acquisition of Astra Tech allows us to efficiently utilize not only our current cash balances, but also our future foreign cash flows. Net income attributable to DENTSPLY International in the third quarter 2011 on an as-reported basis, was \$60.6 million, or \$0.42 per diluted share compared to \$63.7 million, or \$0.44 per diluted share in the third quarter of 2010. Net income attributable to DENTSPLY on an adjusted non-GAAP basis was \$66.2 million, or \$0.46 per diluted share in 2011 compared to \$66.3 million, or \$0.46 per diluted share in the third quarter of 2010. Our supplemental material provides a more detailed bridge of the adjustments that are highlighted in both our quarter, as well as our nine-month or year-to-date numbers. As Bret noted, the current year number is reduced by approximately \$0.04 to \$0.05 per share due to the supply outage in orthodontics. Absent that, we would have shown some nice earnings growth within this quarter.

Cash flow from operating activities in the first nine months of 2011 was \$246 million, compared to \$249 million in the same period last year. But keep in mind, we had a number of payments in the quarter for acquisitions, financing-related costs, legal settlements, and other items of approximately \$40 million, which negatively impacted operating cash flows within this period. Capital expenditures were \$45 million in the first nine months of the year, with depreciation and amortization now at about \$64 million. Inventory days were 104 at the end of the third quarter of 2011, compared to 106 days at the end of the third quarter, and 103 days at the end of last year. These levels now reflect the addition of Astra Tech inventory as well. Accounts receivable days were 60 days, including a slightly higher days from Astra Tech at the end of the third quarter of 2011, compared to 59 days at the end of the third quarter in 2010. At the end of the third quarter of 2011, we had \$82 million in cash and short-term investments and our total debt was \$1.84 billion at the end of the third quarter.

Year-to-date, we have repurchased approximately \$80 million of our stock, or approximately 2.2 million shares at an average price of approximately \$36. Based on the Company's authorization to main up to \$34 million of treasury shares, we have now approximately 12 million shares available for repurchase. However, as we have now completed our acquisition of Astra Tech, our preference will be working to pay some of this debt down before we utilize the remaining authorization, although we will more likely continue to offset our options.

Finally, as Bret stated, we are pleased to be increasing our earnings guidance for 2011. As you recall, our previous earnings guidance was \$1.92 to \$2 per share on an adjusted basis. As we are now identifying all the amortization of purchased intangibles on a non-GAAP item, we wanted to clearly point out that amortization from transactions completed before July 1, 2011 would add \$0.04 to our previous guidance, making our prior guidance on a comparable basis \$1.96 to \$2.04. As we look toward year end, we are comfortable raising our guidance for earnings on an adjusted basis to \$2.01 to \$2.07 per diluted share.

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) We'll go first to John Kreger from William Blair.

John Kreger - *William Blair & Company - Analyst*

Hi, thanks very much. Bill, I think you said in your prepared remarks that the weaker dollar helped the bottom line, but can you quantify by how much?

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

Yes, it was probably in the range of \$0.01 to \$0.02 per share roughly this quarter.

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John Kreger - *William Blair & Company - Analyst*

Excellent, thanks. And any kind of early thoughts on the 2012 outlook? I'm guessing you're not going to give official guidance until the next quarter. But any, any other things we should be thinking about as we adjust models, such as new product introductions and so forth?

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

Yes, at this point, John, we don't really give out any kind of direction for 2012, and we won't really be doing that until our next quarter conference call.

John Kreger - *William Blair & Company - Analyst*

Okay, thanks. And then just one final one, can you talk a little bit more broadly about the trends you saw across your different implant lines? I think you quantified the Astra implant lines. How did your own implant business do?

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

Yes, John, it's Chris. Both of those grew upper mid single digits. So, as you look at it, we were pretty pleased with both of those lines and I think that's indicative of gaining market share behind two really good platforms.

John Kreger - *William Blair & Company - Analyst*

Great. Thanks very much.

Operator

We'll go next to Jeff Johnson from Robert Baird.

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

Good morning. Bret, I was hoping I could start with you. The US organic number at 3.2%, pretty impressive. Wondering how much of that is maybe DENTSPLY specific with some of your Endo products and other products out there versus market, because that's a little bit different than maybe what we were hearing from the market as a broader comment in the third quarter?

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

Jeff, I -- the strength we saw in the third quarter was pretty strong across all lines. The Endo products -- the new products in Endo are doing very well. The new products in restoratives are doing pretty well. The implant line did very well. Lab was positive, but, obviously, it was below the average growth rate that we mentioned there. So, it's interesting, because I've seen a number of surveys that say things must be weakening in the US and we're just one company, but we have a pretty broad sales base in the US and we're seeing strength across, I would say, numerous platforms that we have today. Of course, the one exception to that is orthodontics, for obvious reasons. But, no, it's not isolated to one line or another at this point.

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

All right, that's helpful. Can you provide any color on what US or worldwide Endo or general consumables might have done?

Bret Wise - Dentsply International Inc. - Chairman, CEO

Yes, worldwide, the consumables were, were very strong, kind of mid single digits. The specialty businesses in total were kind of mid single digits, excluding ortho again, of course. I think, I mentioned that in the prepared remarks. Both consumables and specialty products ex ortho were mid single digits worldwide.

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

Okay, great. And then, Bill, a question for you just on the Astra Tech side. You've previously guided to the first 12 months being \$0.12 to \$0.17 accretive. Obviously, Europe has slowed here a bit. Dental implant market, plus or minus, may have changed a bit. But you also eliminated inter company loan hedge and you've got the Swissie now pegged to the Euro that might help manufacturing costs on dental implants in Switzerland. Just wondering how you're conceptually thinking about that \$0.12 to \$0.17 guidance. Will you update that number or at least qualitatively talk around it?

Bill Jellison - Dentsply International Inc. - CFO, SVP

Yes, Jeff, I don't think that we're planning on talking anything specifically about the Astra Tech business or our broader base, any of our specific divisions in the future as well either. Although Bret clearly pointed out that, as well as Chris, that our integration processes, I think, are moving along positively, we're very impressed with the wide range of talent that exists and the associates within that team. I think both teams are working closely together and at this point, we're very confident that this year we'll show accretion within that area and I would say that there's a number of factors that, obviously, impact that, that acquisition and the growth rate, but, we're pleased with how our regular business is running right now and we're pleased with the opportunities that this acquisition brings to us.

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

Last -- maybe a follow-up there, Bill. On the accretion of Astra Tech, I think in the past you guys have talked about it being back end loaded in that first year as well. Do we think in fourth quarter that we actually, on the cash side or even with amortization included, get any accretion out of it, or is that more of a 2012 event?

Bill Jellison - Dentsply International Inc. - CFO, SVP

No, we are expecting that it will be an accretive, accretive to earnings this year already.

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

Already. Okay. That's all I've got. Thanks, guys.

Operator

We'll go next to Jonathan Block from SunTrust.

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Jonathan Block - SunTrust Robinson Humphrey - Analyst

Okay, great. Thanks. Bill, this -- you might have clarified this with your last comment, but I might even ask you to parse it a little bit more. Essentially after all the moving parts, you're raising guidance by about \$0.04. It looks like currency probably moved a little bit against you since the last time you updated us, then you closed the acquisition early. Is there a way to maybe even parse the \$0.04 in terms of what's coming from the accretion from Astra Tech, what, if anything moved against you from FX, and what's attributable to call it core DENTSPLY business model?

Bill Jellison - Dentsply International Inc. - CFO, SVP

Well, I think probably the only one piece that you can really pick out based on what we said there was, I gave you roughly an idea on kind of how the FX was within the third quarter. We've said that, that's, obviously, changing and is going to probably look more neutral to us moving forward. So, obviously, that has -- is more of a headwind in relationship to kind of what maybe we previously expected in July. But I would say the other categories, really across the board that Bret pointed out, both the broader-based markets with our base business performance, the performance within our ortho business, that it's probably a little bit better than what we had expected in July, but right at the mid-point of kind of what we originally expected at the beginning of this year when the earthquake first happened. And I think that, he also clearly stated that we're confident that we will have accretion from at least the acquisition this year.

Jonathan Block - SunTrust Robinson Humphrey - Analyst

Okay, great. And then maybe to turn it over to the orthodontics business, I just want to make sure I'm thinking about this properly. So, \$0.06 impact expected roughly in the fourth quarter. That would be the peak. Work your way down from there, but still negative in the first half of '12. And then cross over in the back half of '12. Is that correct? And then the second part to the question would be, you mentioned increased shipments from the supplier. Is there a way to put a percentage on, we're now getting 20% of our self ligating volume back, or 30%? Thanks, guys.

Chris Clark - Dentsply International Inc. - President, COO

Yes, it's Chris. I would say, Jonathan, the progression that you described is pretty similar, pretty accurate to the way we're thinking about it. So, from that angle, I think that's correct.

In terms of -- I'm not going to comment in terms of a specific percentage, mainly for competitive reasons. But as I indicated before, we're getting more regular, but partial shipments at this stage. It is getting better. It is a gradual process. They are continuing to expand capacity, but, obviously, this was a tremendously significant event, obviously, for them and their employees and their resilience, but it is a gradual process.

Jonathan Block - SunTrust Robinson Humphrey - Analyst

Okay, great. And last couple of questions, first one, Bret for you, I know you don't like to give a lot of color intra quarter, but again, your US number was quite honestly better than what we were expecting. Was there anything intra quarter that you sensed, or was it pretty much stable July through September and maybe even any commentary into October, if you could?

And then Chris, last one for you, are you now meeting demand on Wave ONE? That looked like it was going to be a great product for you. I think you were trying to catch up to the demand last quarter. Where are you right now? Thanks, guys.

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

I'll go first and Chris can comment on Wave ONE. With respect to within the quarter, I don't really think it is meaningful to try to measure the business or the markets in week implements, or even a month increment, particularly the third quarter, because Europe in particular gets to be very slow during the vacation period of late July to late August. But I think overall, with respect to the global markets, we saw, we saw really good strong conditions in the US and many of rest of world categories. Europe did slow, as we commented, but I don't think there's any trend within the quarter. You're asking specifically about the US. There's any trend specifically in the quarter where that would make us believe that it varied greatly from one period to another. Chris, do you want to talk about the --

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

Yes, regarding Wave ONE, obviously we're very pleased with the market reaction to it. We increased the focus. Actually, we were later in terms of the introduction in the US than we were in Europe and the rest of world. So in Q3, we were just beginning to get some momentum on that in the US. What I would say is that the back order, we still do have back orders. We have increased capacity and certainly running hard. It's a pleasant problem to have, but I would characterize the level of the back orders as below what they were when we chatted three months ago.

Jonathan Block - *SunTrust Robinson Humphrey - Analyst*

Great. Thank you, guys.

Operator

We'll go next to Robert Jones from Goldman Sachs.

Verdell Walker - *Goldman Sachs - Analyst*

Good morning, everyone. This is Verdell Walker in for Bob Jones. I just want to start really quickly on the Japan situation. I see you guys are backing out some orthodontic business continuity costs. Your non-GAAP reconciliations. Just trying to get a sense of in addition to the sales force expenses you'll be incurring, maintaining your sales forces to this, what are these other expenses that you're going to be incurring as you deal with this situation? Promotional activity or anything else like that, just a little bit more color on what that is exactly?

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

I think all the promotional-related activities of launching new products and everything else, or platforms, will all be running through regular operations. We would not be excluding any that have. Some of the continuity cost areas are really for support costs to ensure that the employees throughout this period are solidly committed to the business, they are staying with the business and ultimately going to be driving the business on the back side of it as we ultimately get new products.

Verdell Walker - *Goldman Sachs - Analyst*

Okay, thanks. My next question is, could you just talk a little bit around your debt repayment assumptions? I know that's a big focus for you guys, even more so than the share repurchase. Just trying to get an idea of how you're thinking about progressing on that.



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Bill Jellison - Dentsply International Inc. - CFO, SVP

Well, you can, obviously, see the level of cash flow that we've already got kind of this year on a year-to-date basis. We generally generate significant amounts of both operating cash flow, as well as free cash flow. Our expectation for that cash flow moving forward here, the primary focus of that will ultimately be for debt repayment. So, as we get to kind of the back end of next year, we would be expecting to have paid down a nice piece of the debt already and probably really for the next two years, that's our primary focus. That does not mean that we might not have some tuck-in acquisitions that we still do within kind of that first two years, but if we did, I would expect those would be relatively small. So, you can expect to use the majority of kind of the free cash flow side for debt repayment at least in the first couple years. So, roughly, a good kind of probably rule of thumb is maybe in the \$250 million range, possibly plus a little bit depending on what availability we've got to do that pay down.

Verdell Walker - Goldman Sachs - Analyst

Okay, great. And last question, if you've already answered this on Astra Tech, I apologize. I had to hop on from another call. But at the time you announced Astra Tech, you discussed a current implant market growth rate of around 4.5% with the idea that your implant business, both the combined and Astra Tech and legacy, DENTSPLY could grow above that.

If that was the assumption then, what's your assumption now on the growth outlook for the implant market? And if those accretion targets you had talked about, the \$0.12 to \$0.17 in the first 12 months haven't changed, what is the offset if your market growth assumption has come down? And similarly, your original expectations for year three were about \$0.30 to \$0.40 if I remember correctly, so what were the market growth assumptions behind that guidance?

Bret Wise - Dentsply International Inc. - Chairman, CEO

This is Bret. I will comment on that briefly. At the time of the announcement, I think we said in the near term we expect the dental implant market to grow mid to single digits. We think that longer term it could be high single digits, maybe very low double digits, but that's -- we didn't assume that recovery would happen immediately, we thought that would take some time. That seems to be the case at this point.

We do see some companies in that market growing mid single to even a little bit stronger than mid single digits. We're in that category, but I think one of the things we commented on in our guidance today is we've now been through the integration process, been in the company for 60 days. We've been able to look at the assumptions we made and in our view they were very solid, even now that we have more information and in fact that was one of the reasons that we were positive about the accretion number in 2011. We are comfortable with the assumptions we made, including those that we gave to the investment community at the time of the transaction.

Verdell Walker - Goldman Sachs - Analyst

Okay. So, that \$0.12 to \$0.17 is still intact?

Bret Wise - Dentsply International Inc. - Chairman, CEO

Yes, we're comfortable with the accretion numbers we gave the street at the time of the transaction.

Verdell Walker - Goldman Sachs - Analyst

Okay. Thanks so much for the questions.

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Operator

We'll go next to Yi-Dan Wang from Deutsche Bank.

Yi-Dan Wang - *Deutsche Bank - Analyst*

Thank you very much. It would be great if you can give us a sense of how your legacy dental implant business performed in the region, so US, ex US. And also how Astra Tech's dental business performed in those regions. Thank you.

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

This is Bret. We don't give breakdowns by regions for any of our product lines and I don't think we should start that with dental implants. I think the comments that Chris made earlier with respect to both our system and Astra Tech's system growing, I don't remember the exact words you used, Chris, but like strong mid single digits.

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

Yes, upper mid single digits.

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

Globally is the guidance we're willing to stand behind or the information we want externally. So, we're not going to give a regional breakdown of the various product lines we have.

Yi-Dan Wang - *Deutsche Bank - Analyst*

Are you able to say whether the US business grew faster than the ex US business?

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

Yes, the US business did grow faster than the none -- the outside US business.

Yi-Dan Wang - *Deutsche Bank - Analyst*

The growth that you indicated for Astra Tech's dental business seems to suggest that it has actually slowed in the third quarter by, say a bit, compared to the momentum that you had in the beginning of the year. Can you talk about what has driven this slowdown?

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

I'm not sure that, that's correct actually, that it has slowed. So, I'm not going to comment on whether it's slowed or not. I don't think, I don't think that it has slowed.

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Yi-Dan Wang - Deutsche Bank - Analyst

Okay, and then finally, on the integration of the Astra Tech dental business, can you talk about how that integration would proceed and how you would operate it with DENTSPLY's existing implant business, given that the way these two businesses are, were managed, were very different?

Bret Wise - Dentsply International Inc. - Chairman, CEO

Well, we're deep in the integration process. As Chris mentioned, we've got a team of Astra Tech executives and a team of DENTSPLY executives working on that. We haven't made any public announcements on how the businesses are going to be integrated at this point. When we get to the point of being ready to announce that publicly, we'll pass that on to the shareholder group as well.

Yi-Dan Wang - Deutsche Bank - Analyst

Presumably, also too early to say how long it would take you to integrate it and what sort of disruptions we should factor in at this stage?

Bret Wise - Dentsply International Inc. - Chairman, CEO

Yes, there's no timeframe announced for integration. I think both systems continue to perform very well, even with the distraction, by the way, of the -- of being sold at Astra Tech, and now with the integration under way, their dental implant business is operating very well, as is ours.

Yi-Dan Wang - Deutsche Bank - Analyst

Okay, great. Thank you.

Operator

(Operator Instructions) We'll go next to [Steve Boucher] from Morgan Stanley.

Unidentified Participant - Analyst

Hi, good morning. Thanks for taking the questions. Bill, I wonder if you could spend a bit more time trying to quantify the changes to the lines of the P&L, particularly SG&A and gross margins, as you look at some of the non-organic change given the Astra Tech integration and the updated treatment of amortization. And if you could give us a sense for how that might be different in the fourth quarter, given you'll have a full quarter of Astra Tech. That would be really helpful, thanks.

Bill Jellison - Dentsply International Inc. - CFO, SVP

Yes, I think, this is -- we had Astra Tech in our business for one month here and we did say that as we move forward, two things will in essence be shown to a little greater degree on the impacts. First off, Astra Tech's business, in general, has higher average margins than DENTSPLY's average business, so you should expect that benefit on the margin side for that mix benefit of the acquisition will be greater in the fourth Q and as we move forward. The flip side of that is that the overhead structure of their current business is, obviously, well above DENTSPLY's levels, so our SG&A-related side is going to be higher and it will, obviously,

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be driving -- that impact will, obviously, be nearly three times the impact within the fourth quarter. But as far as specific expectations beyond that, we aren't really be giving any additional guidance.

Unidentified Participant - - *Analyst*

Now, sticking with Astra Tech -- number one, thank you for the commentary and the granularity on the implant businesses. Number two, building on that, can you comment on the organic growth for Astra Tech as a whole, and for the non-implant, for the medical business lines, and then hopefully give us a sense for how that's trending relative to the first half of the year?

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

I'm not going to give any specific guidance on that other than to say the healthcare side of their business performed very well in the month that we've owned them. We've got all of 30 days of their numbers in our numbers. We've said that we acquired that business and intend to run it because we like the business model, both the growth rates and the margins and the creativity that's in that business. So, the comment that Chris made, of course, was about their implant business. But I would say in the period we've owned them, the healthcare business has done very well also.

Unidentified Participant - - *Analyst*

Okay, great. Thank you again, and have a great morning.

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

Thank you.

Operator

We'll go next to Larry Marsh from Barclays Capital.

Elliot Feldman - *Barclays Capital - Analyst*

Hi, guys, good morning. This is Elliot Feldman filling in for Larry. Bret, just a quick question for you. I want to follow up on some of your Europe comments, I think came in a bit below what we were expecting. Obviously, you expanded on -- you had some trouble in the southern countries and precious metal alloys, and a couple of other things. I know you guys aren't giving guidance for '12, but qualitatively now one month into Q4 and looking towards 2012, are some of these issues sort of still sort of going on here and something we can expect for the next few quarters before we kind of maybe resume some of the growth we're used to seeing over in Europe? Or is this more quarter-specific issue?

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

The issues in Southern Europe, I don't believe those are quarter specific. I think that the economic situation there is going to be difficult for sometime and, we've seen the difficulty they have had coming up with a real solution. There was an announcement today, I guess this morning that, they appeared to have made some progress there. But at least it was with respect to Southern Europe, I'm not sure that's isolated this quarter. Northern Europe continues to perform reasonably well. It's a steady, much more of a steady environment. And I don't see any reason to change our view on it at this point, on the Northern regions of the European continent.



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Elliot Feldman - *Barclays Capital - Analyst*

Thanks. That's very helpful. And Chris, maybe a quick one for you, just following up on all the implant discussion, just want to follow up on some of pricing dynamics here from a margin perspective, particularly on the premium implant side. Could you comment on if any of the pricing dynamics change throughout the past one, two years or so that you've noticed? And coming into 2012 here, kind of the pressing dynamics on the premium side of the market, have those changed materially at all or kind of as-expected?

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

No, we really have not seen any significant changes in pricing dynamics. We've been able to, certainly on the Friadent side, pass on price increases and have done that relative to both product lines. From that angle, we're not seeing the need for significant increases in discounting or anything like that in terms of driving the growth rate that we've seen.

Elliot Feldman - *Barclays Capital - Analyst*

Okay, thanks guys.

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

Thank you.

Operator

We'll go next to Scott Green from Bank of America.

Scott Green - *BofA Merrill Lynch - Analyst*

Hi, thanks for the questions. So first, could you elaborate a little more on your product launch outlook for 2012? I know you've spoken a lot about how successful the 2011 line up has been and to the extent it's been supporting results this year, how do you think about the line up of next year on a relative basis?

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

I would make two comments. One is, products, new products and brands introduced in the dentistry take several years to kind of ramp up. So, even though we're seeing some benefit from the new product launches this year, we should see continued benefit from those same products for the next couple years. The pipeline of products that have yet to be launched and that will likely be launched in 2012, I view as kind of a normal level at this point. 2011 was a little higher than normal and I would say 2012 is more of a normal level. We can probably give an update on the status of the pipeline when we talk on our year end call.

Scott Green - *BofA Merrill Lynch - Analyst*

Okay, all right, thanks. And then in the US, looking back, I think in the third quarter of 2010, you had spoken about a tough equipment comp that maybe drove a little weaker results in the US and I was wondering if that may be set the stage for an easier comp into this quarter, or do you view the results in the US ex-Japan and ortho as a good run rate to consider going forward?



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

Chris, I'm going to ask if you have any specific comments.

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

Yes. No, the small equipment comp was not a significant factor in terms of the Q3 results. So, I would say that with respect to Q3, that's about what we think, we think that's a pretty accurate reflection of what the business is doing.

Scott Green - *BofA Merrill Lynch - Analyst*

Okay, great. And was there -- could you update us, maybe I missed this, but any price increases you implemented on October 1, and if that might have had any pull-in from the fourth quarter?

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

Yes, we implement price increases on most of our consumable businesses in the US and in Europe. October 1, there is -- that has been the timing for the last several years, so that's in the base period as well. I would say, again, aggregate the impact in terms of any impact from Q4 into Q3 is, is very similar to what it was last year. So again, I don't think there is a whole lot of distortion in our aggregate results associated with that.

Scott Green - *BofA Merrill Lynch - Analyst*

Okay, okay, great. And then lastly, you gave good directional guidance on the Japan issues heading into next year, so sequentially it gets easier each quarter. But I guess on a net overall basis, it's still a nicely positive tailwind to earnings in the aggregate next year, is that correct?

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

Well, I would say -- keep in mind, once you anniversary kind of the impact, so once you kind of get through the first half of the year, then I think that you can assume that, that should be -- begin to be more accretive year-over-year. But in the first half, despite the potential sequential improvements in the first and second quarter Q, year-over-year, those periods will probably still be negative. So, you aren't going to get the benefit until probably the third and fourth Q and for the year you might get, obviously, some slight positive.

Scott Green - *BofA Merrill Lynch - Analyst*

Okay, okay.

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

Recognize that the event was March 11, so it really didn't impact Q1 and we certainly had inventories come into Q2. So, while it had an impact, that impact was later in the quarter.



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Scott Green - *BofA Merrill Lynch - Analyst*

So, a modest benefit to 2012 seems more fair, and then you would anniversary -- annualize those benefits in 2013, if all goes according to plan?

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

Yes, I think that's, that's fair and as we get into the back half of 2012, I think that, that's also fair that we should be seeing some improvements.

Scott Green - *BofA Merrill Lynch - Analyst*

Okay, thank you.

Operator

We'll go next to Brandon Couillard from Jefferies.

Brandon Couillard - *Jefferies & Company - Analyst*

Bret, just quickly on the US trends, is it your sense that the strength in the US was attributable to any type of better utilization trends, or is it -- would you characterize it more as a function of price and some new product contribution?

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

I don't think it was price specifically. Utilization trends are hard for us to really get a handle on, except in our direct businesses. I think for us, it was really a strong uptake on the new products. It seemed to us that dentists were buying a little bit more aggressively than they had before. As we already commented, we did the normal price increase and we saw about the normal buy-ahead, so it wasn't that. Our view is that across all these platforms, things just improved in the US, just got better.

Brandon Couillard - *Jefferies & Company - Analyst*

Okay, thanks. And Chris, on the new product front, should we expect the same level of new product launches in the back half of this year, as we saw through the first half? And then any update you have on MTM or the Sensodyne collaboration would be helpful as well.

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

Yes, in terms of the overall level, if you will, in terms of new product launches, we were probably front loaded this year. We commented on it, that this year was pretty much a heavy year for us in innovation and it was no doubt in terms of the timing of the introductions probably more front loaded than back loaded.

That said, we introduced some neat products in the third quarter. I didn't highlight those in my comments, but one of which I would highlight would be on the preventive business, the RDH Freedom cordless Prophy handpiece that is a significant improvement versus the corded handpiece that hygienists typically use for Prophy's. So, there's a number of new product launches still in the third and fourth quarters that we look to bring to market, but I would characterize that as more normal levels.

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In terms of MTM, I'm not going to comment specifically on timing in terms of the US launch, because, again, that is depending on regulatory approval and that's not something we can predict real easily. What I would say is that we are now just launching it in Canada, so, obviously, we'll look at that as a test market to try to optimize our launch programs, if you will, moving forward. In terms of the Sensodyne collaboration, we're working with them on a number of fronts. I would say that there's some areas with that, that we've been pleased with in terms of the results and some areas that have been a bit more challenging. Really not going to get into a whole lot more specifics than that, but I would say, again, we're certainly better for the collaboration as a result.

Brandon Couillard - *Jefferies & Company - Analyst*

Thanks, and lastly, Bill, any update on CapEx or operating cash flow expectations for the year?

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

Well, you can see that we spent around \$45 million so far through this period. I think that something probably around the \$60 million, maybe 60, a little bit north of 60, might be reasonable, but it really depends on how those flow in. I think that's what you should expect for this year and you're going to, obviously, see a bump in that next year.

Brandon Couillard - *Jefferies & Company - Analyst*

Okay, great, thank you.

Operator

We'll go next to Jeff Johnson from Robert Baird.

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

Thanks, guys. Just two quick follow-ups here. Bill, what was the change in the equity in affiliates line there, swinging to a nice positive number there this quarter?

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

As far as the, as far as the non, the non-controlling interest portion, part of that was being backed out, as you can see on the non-GAAP related items, that was a move on the deal investment that we've got associated with it. But it's really the performance of really both of those businesses, both of the businesses that we consolidate and back out a piece of, but then also the deal operation.

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

Okay. So, the 1597 number that's in the P&L, you did back a little bit of that out? Did I just miss that in one of the disclosures?

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

Yes, that's correct.

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

I'll take a look there. Then lastly, and I know a lot of discussion here on how ortho might or might not phase back in over the next couple of years. Chris, I think you made the comment, think about this as a multi-year recapture of some of those lost sales. Over the next two or three years as you recapture that, if that happens in ratable increments, 20%, 30% a year for a couple years, a few years, something like that, is it safe to assume that the margin on that business then kind of ratably improves over a two or three-year period? I'm assuming there's some variable costs in there, but there's a lot of fixed costs. It's kind of like a margin driver for a few years. Is that a fair assessment?

Chris Clark - Dentsply International Inc. - President, COO

I would say, Jeff, we might get some leverage, but recognize that we don't manufacture. So, it's not like you get leverage coming through your own manufacturing plant with that.

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

Yes, I just got to think some of the overhead cost -- the absorption of some of those overhead costs that you do have in that business just get better and better absorbed over a two or three-year period as you ramp that back up?

Chris Clark - Dentsply International Inc. - President, COO

Certainly relative to absorbing an SG&A rate in particular, yes. I would say less on the gross profit rate.

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

Yes, yes, that makes sense. Thanks, guys.

Operator

At this time, we have no further questions.

Derek Leckow - Dentsply International Inc. - VP, IR

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

Operator

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

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