

# FINAL TRANSCRIPT

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**XRAY - Q1 2011 Dentsply International Inc Earnings Conference Call**

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**Bret Wise**

*Dentsply International Inc - Chairman, CEO*

**Christopher Clark**

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## CONFERENCE CALL PARTICIPANTS

**Robert Jones**

*Goldman Sachs - Analyst*

**John Kreger**

*William Blair & Company - Analyst*

**Brandon Couillard**

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**Jeff Johnson**

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

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## PRESENTATION

**Operator**

Good day and welcome to today's DENTSPLY International first quarter 2011 earnings conference call. At this time I would like to turn the conference over to DENTSPLY's Vice President of Investor Relations, Mr. Derek Leckow. Please go ahead, sir.

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**Derek Leckow** - *Dentsply International Inc - VP, Investor Relations*

Thank you very much, Kelly, and good morning, everyone. Thank you for joining us for DENTSPLY's first quarter 2011 earnings conference call. Also with us today are Bret Wise, Chairman and CEO, Chris Clark our President and COO and Bill Jellison our Senior Vice President and CFO. 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 available on our website at [www.dentsply.com](http://www.dentsply.com).

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. A recording of this call in its entirety will be available on our website.

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

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

Thank you, Derek, and good morning, everyone. Thank you for joining us on our call. Before we get started I would like to officially welcome Derek to our team as Vice President, Investor Relations. Many of you know Derek through his many years of [following] dental companies including DENTSPLY's on the [cell] side, and we are very pleased to have him join us. He has significant experience in our markets, and I think will be a significant addition to our team.

Moving to the results. This morning we were very pleased to announce record results for our first quarter 2011. As noted in our release we delivered improved sales growth rates and much improved earnings performance. In fact, this is the best growth that we have seen since before the recession began in 2008.

From a revenue perspective we recorded total sales growth, [ex] precious metal, of 6%. That was driven by constant currency growth of 4.6%. The 4.6% was comprised of internal growth of 3.8% and 0.8% growth from acquisitions.

In addition we also benefited from currency this quarter. This is a welcome relief as the Euro and other currencies gained strength against the dollar during the quarter and that added 1.4% to our sales growth [ex-pm]. Our 3.8% internal growth does reflect the negative impact from the events in Japan in the quarter, however, it was modest. Less than half a percentage point. Absent that single event we believe we would have reported internal growth in the low 4% range.

Geographic internal growth was plus 1.1% in the US, plus 4.1% in Europe and plus 8.4% for the rest of world. The US growth was aided by double digit growth in implants and solid growth in consumables and was negatively impacted by the supply outage for orthodontic products source from Japan as we quickly put our customers on allocation following the March 11 quake and tsunami. On an adjusted basis, including adjusting for the impact of the supply issue in Japan, internal growth in the US would have been closer to 2%.

Internal growth in Europe continued to be strong at 4.1% and in fact this may be understated as the key trade show for the new product launches in Europe was the International Dental Show which was held the last week of the quarter in Cologne, Germany. We had a very strong presence at a the show including numerous new product launches with most orders, the majority of the orders, being shipped the first week of April. We also saw a very strong reception for our base products, are existing product lines, during the show and I've asked Chris to comment on this further in a moment.

In rest of world as I mentioned we grew 8.4% on an internal growth basis. We had very strong growth in Asia Pacific, Latin America, Middle East and Canada. And as expected due to the circumstances, we were slightly negative in Japan.

Overall, we believe the consumable dental market made considerable progress towards returning to what we would view as more normal growth rates as we enter 2011. Although the market growth may not have returned completely to the pre recession levels, they are clearly turning in that direction at present. This is, obviously, very good news for the industry, the market and for DENTSPLY, and we are hopeful that these trends will continue.

Product line growth was lead by the specialty group and chairside consumables which were both up mid single digits on an internal growth basis. The strongest growth was in implants which had positive double digit constant currency growth and was just under double digits on an internal growth basis. But we also saw substantially improved growth rates in our chairside consumables and our endodontics driven in part by new product introductions.

As we commented on prior calls we presently have a very full new product pipeline which is scheduled for launch this year and we're just beginning to enjoy a very positive market reception from these new product opportunities.

In lab our sales trend was negative in the quarter. That was due in part to a substantial decline in the use of precious metal alloys in Europe with gold prices reaching record highs during the quarter.



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We also have several new products coming into prosthetics later this year, including a new cobalt chrome product that will be taken to market in connection with our partnership with Sirona. It will be milled on the Sirona install basin inlab. And in addition to that product, we have several other material offerings that will also be launched throughout the year and early into 2012. I think it is fair to say that we are quite enthusiastic about the new opportunities we have in the prosthetics market at present.

With regard to earnings we also saw an acceleration of earnings growth up 17.1% on a GAAP reported basis and up 11.4% on a non-GAAP basis. Again, the events in Japan in early March and then continuing through the rest of the quarter did have a negative impact on earnings, but it was only modest in this quarter. Bill, of course, will have additional comments on the results but from an overall perspective, I think it is fair to say we are very pleased with the results at the start of the year in 2011, and particularly pleased with our team's execution on bringing several new products to market, and all this despite the headwind that we face in Japan.

With respect to the situation in Japan our sales of product in the country comprise about 4% of our total sales ex-pm. As expected, we saw the market slow following the events of March 11 and expect there will be a considerable continuing impact from this disaster for some time in the local market. I think that is particularly true in the northern part of the country, but also may be true in the heavily discretionary procedures at least until some state of normalcy returns.

Regarding our supply chain. As we noted in our release on March 15, we do have one key supplier that's located in the evacuation zone. With respect to this supplier they are commencing limited production at alternative sites at present, but that expect it will be some sometime before they can relocate the full operations and recommence supply of the full range of products in quantities to fully meet with demand.

We moved forward to begin sourcing alternative products from numerous other suppliers which will commence as early as next month, as well as through our own production on a limited basis. We also have implemented plans to reduce the cost structure of this business in the interim. All these actions taken together will provide some mitigation of the impact on our results. However, the extent of the mitigation is not completely clear and is subject to numerous variables. Accordingly, as noted in the release this morning, we estimate the downside risk of \$0.12 to \$0.17 per share due to the events in Japan. And accordingly, we are reestablishing our full year earnings guidance for 2011 at a range of \$1.86 per share to \$1.98 per diluted share. I think it is important to note that our results in Q1 exceeded our internal targets for the quarter, so there is a possibility that the remainder of our business will continue to outperform, particularly as we bring new product offerings to market which may help to mitigate these impacts further.

Outside the results, we completed one small acquisition in the quarter. We acquired the remaining minority interest in another business, and we also signed a third transaction to acquire a minority interest in a third company during the quarter. Reinvestment in the Company and acquisitions remains our top priorities for cash deployment. In addition, we did repurchase approximately 2 million shares during the quarter and in March our Board of Directors authorized an additional 12 million shares for repurchase.

We have very strong balance sheet, strong cash balance, and to the extent we are not able to put that money to work on acquisitions, you should expect to see us use this authorization over time. That concludes my prepared remarks. I would like to turn the call over to Chris for further insights on our new product pipeline as well as early results from the trade show activity. Chris?

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**Christopher Clark** - *Dentsply International Inc - President, COO*

Thank you, Bret, and good morning, everyone. As Bret mentioned, we are pleased with the momentum we are seeing across our businesses associated with our innovation efforts, and also the exceptional level of interest in our products at the recent trade events. I would like to take a few moments and provide some additional perspective in both areas.



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I commented on our fourth quarter call in February that we were entering the year with a particularly strong new product pipeline. Consistent with those comments, we introduced over 20 new products in the first quarter alone, well above our typical run rate. These launches spanned our broad range of portfolios, including chairside consumables, specialties and prosthetics, and in general I would characterize market reaction as very positive as we at this point are already in a back order situation on several of these products. Importantly, we still have a disproportionate number of new product launches scheduled for the remainder of the year, including several this quarter. Further reinforcing that our innovation efforts across the Company are alive and well, and also that impact of not reducing R&D investment during the economic downturn is paying dividends for us as the markets recover.

We are particularly pleased with customer reaction to our most impactful launches in the quarter. On the chairside business, dentists have responded very favorably to the new ChemFil Rock Advanced Glass Ionomer Restorative with its superior mechanical properties and simplified placement process. You may recall that this is basically our first significant entrant into the estimated \$100 million global glass ionomer category, and represents minimal cannibalization risks for us. Also in the chairside area, we are very pleased with reaction to our Cavitron Focused Spray Slimline 1000 insert which continues to emphasize the value of improved subgingival access, and it has significantly exceeded our initial expectations in terms of customer expectation.

In the endodontic area, we introduced the reciprocating file system in Europe in the first quarter and anticipate launching this product in the US later this quarter. You may recall that this system reduces the potential for file separation or breakage, and results in a much simpler clinical technique that reduces the time to shape the canal by up to 40%. Combined with the new GuttaCore Obturation system launched late last year and the QMix 2in1 Irrigating Solution that we introduced in the first quarter we believe these initiatives serve to define the next generation in endodontic therapy.

Finally, in the lab portfolio, we continue to expand our applications of our Ceramics platforms by broadening our Ceramco PFZ, or porcelain infused with Zirconia line to include a wider range of shade options for the dental technician. As Bret mentioned, we are also finalizing plans to introduce a unique milled cobalt chrome disc that will be available for customers who have Sirona's CEREC inlab machine, providing the first significant expansion of milled CAD/CAM solutions into the growing non-precious metal segment. We showed this product at the IDS and we were extremely pleased with customer reaction to it. We anticipate market introduction later in the second half of the year.

We are also very pleased with the level of customer interest in our products at the various key trade shows held during the first quarter. Our consumables businesses posted sales gains from the Chicago Midwinter Show in February and the Hinman Meeting in Atlanta in March of almost 70% and 150% respectively compared to prior year's show. At last month's International Dental Show in Cologne, Germany, the largest dental show in the world, our European businesses posted similarly strong results with respect to the new product introductions, consistently surpassing our launch targets by wide margins.

We attribute these strong results to a more optimistic dentist customer base as well as a high level of interest in the clinical benefits provided by our new product launches. As I mentioned, we are similarly excited about the portfolio of launches yet to come this year, including several this quarter, and I look forward to providing you additional updates regarding our innovation efforts on subsequent calls. I would now like to turn call over to Bill Jellison who will cover the financial results for the quarter in greater detail. Bill?

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**William Jellison** - Dentsply International Inc - CFO, SVP

Thanks, Chris. Good morning, everyone. Building on Bret's comments earlier, on the revenue side the geographic breakdown was 35.8% in the US for us in the quarter, 42.4% in Europe and 21.8% in the rest of the world.

Gross profit margins as a percentage of sales ex precious metal content in the first quarter of 2011 were 56.9% compared to 56.7% for the first quarter of 2010. The rate was positively impacted in the quarter compared to the same period last year as we



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realized the benefits of improved pricing, and also benefited from improved product mix from new products and stronger specialty business growth. FX continued to negatively impact gross profit margin by a approximately a full percentage point and manufacturing costs were higher for some of the higher material costs, including metal prices and some polymers.

SG&A expenses were \$200.8 million, or 38.1% of sales ex precious metals in the first quarter of 2011 versus 37.8% in the prior year's first quarter. These expenses were higher as a percent of sales primarily due to additional investments made to support our new product launches, and also higher expenses supporting the International Dental Show which occurs every two years. Of the nearly \$13 million increase in SG&A, over \$3.5 million was from the impact of FX movements and acquisitions.

Operational margins for the quarter were 17.3% compared to 16.4% in the first quarter of last year. Operating margins based on sales, excluding precious metals, were 18.7% compared to 18% last year in the same period. And operating margins based on sales, excluding precious metals, for comparative purposes, excluding recent acquisition-related activities and restructuring and other costs, in both periods would have been 18.8% in the first quarter of 2011 and 19% in the first quarter of 2010.

Net interest and other expense in the first quarter was \$4.6 million compared to net interest and other expense of \$5.9 million last year in the first quarter. This reduction in expense resulted primarily from both higher net interest income associated with the interest income of the [deal] convertible bond held by the Company and also lower foreign exchange transaction losses in the period.

The corporate tax rate in the quarter of approximately 25% to 25.5% is relatively consistent with the first quarter of 2010 and we expect this to be a reasonable assumption for an operational tax rate for 2011.

Equity in net loss attributable to unconsolidated affiliated company reflects our investment in non consolidated businesses. The loss shown is solely the result of the increased market value of the convertible bond we hold in deal. This bond gets marked to market each quarter, and in a period when their stock price has increased as it has this period, it results in a loss on their financial statements and we pick up our 16% interest of such loss. Any gain or loss from that change in value is being treated as a non-GAAP item by us. The opposite impact of that valuation change is reflected in our financials. However, it is run through OCI and not our income statement until we convert the bonds, at which time it will be run through our P&L, but will also be flagged as a non-GAAP adjustment at that time.

Net income attributable to DENTSPLY International for the first quarter of 2011 was \$69.1 million or \$0.48 per diluted share compared to \$0.41 per diluted share in the first quarter of 2010. Net income attributable to DENTSPLY International in the first quarter on an adjusted non-GAAP basis, excluding restructuring and other costs, recent acquisition related activities and income tax related adjustments, was \$70.6 million, or \$0.49 per diluted share in 2011 compared to \$65.5 million, or \$0.44 per diluted share in the first quarter of 2010, an 11.4% improvement in EPS.

Cash flow from operating activities in the first quarter of 2011 was approximately \$44 million compared to \$37 million in the same period last year. The cash flow in the first quarter of 2011 was higher than last year due primarily to the increase in earnings and lower tax payments offset somewhat by a greater increase in accounts receivables, and sales were stronger in the quarter compared to last year.

Capital expenditures were \$12 million in the first quarter with depreciation and amortization at \$17.9 million in the period. Inventory days were 110 at the end of the first quarter of 2011 compared to 102 at the end of the first quarter last year and 103 days at the end 2010. Nearly half of the increase was the result of exchange rates and the balance was inventory builds for new product launches. Receivable days were 60 days at the end of the first quarter in 2011 compared to 59 at the end of the first quarter in 2010, and 54 days at the end of 2010.

At the end of the first quarter of 2011 we had \$575 million in cash and short term investments. Total debt was \$664 million, also at the end of the first quarter. During the first quarter we have repurchased approximately 2 million shares or \$74 million of stock. Based on the Company's recent increase in its authorization which allows us to maintain up to 34 million in shares of



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treasury stock, we now have approximately 12 million shares available for repurchase although our top priority for using our balance sheet strength is primarily synergistic acquisitions.

Finally, as Bret noted we are very pleased with our strong start to the year. Obviously the events in Japan are having a negative impact on us this year and given what we know at this time we believe this is in the range of \$0.12 to \$0.17 per share. Including this impact, our 2011 guidance for earnings per diluted share on a non-GAAP basis is \$1.86 to \$1.98. 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.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions). We will go ahead and take our first question from Robert Jones with Goldman Sachs.

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### Robert Jones - Goldman Sachs - Analyst

Thanks for taking the questions. Bret, on the contingency plans that you discussed I was hoping maybe you could share a little bit more detail about the variables. I guess specifically what really could impact the timeline here?

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### Bret Wise - Dentsply International Inc - Chairman, CEO

Sure, Bob, let me give you a few more insights on that. There is a number of variables here at work. One is with respect to our original supplier, or are current main supplier, we source from them approximately 4,800 SKUs. Their production site is or was in the evacuation zone. They have now abandoned that site and they are moving to alternative sites for production. But this is going entail ordering new equipment, bringing it in, installing it and validating it and then trying to ramp it up to full production volumes. So the success, or the speed of doing that, is a little bit uncertain at this time although the equipment is on order.

The second variable is we are going to begin sourcing next month new you products from numerous sources and we will be constructing a portfolio of offerings to our customers which we will begin to show at the AAO meeting two weeks from now in Chicago. Those products well then go out into the hands of our sales force and we'll begin to ramp up sales with those to try to mitigate the ramp down of the existing inventory we have from the original supplier.

Then thirdly, the other main variable is once the existing supplier comes back up what is the rampup time and recapturing. We have very loyal customers, but we are going to have to go back out and recapture share from some of our competitors during the recovery period.

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### Robert Jones - Goldman Sachs - Analyst

That actually was leading into my next question. I was just wondering if maybe you could help us think about market share loss. Sounds like there could be a window here where obviously between sourcing and the new site coming back online, there could be a window there where you don't have product for customers. How should we think about market share losses and how permanent they could be?



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

Well, I think it is important to note that we are not withdrawing from the orthodontic market. In fact, as I mentioned, we are going to have new products to show in two weeks and begin taking shipments for those products next month. So market share losses is kind of a funny thing to try to define. Some of the products we get from our main supplier are quite unique and they are very technique sensitive, so we are not going to have exact replications of some of those SKUs. So this will be a process whereby we are rolling out new products to you our customers, trying to teach them the technique on the new customers and some of them might convert back to the old products after this crisis has abated and some of them may not. So, I think that is something that is very hard to predict with any certainty at least at this time.

**Robert Jones** - *Goldman Sachs - Analyst*

No. That's really helpful. And then just one last one on the updated guidance. Obviously, some strong growth here across the board. I was wondering if maybe you could just help us how we should be thinking about the underlying market growth assumptions behind the new guidance and how that's progressed year-to-date. Thanks so much.

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

Sure. I think pre recession -- let's call it 2004 to middle of 2008 -- the global dental consumable market was probably growing in the 4% to 5% range organically. I don't think it is quite there yet, but I think it is probably starting to approach the low end of that range. And as far as we can tell we don't see anything changing that at this point. So to a degree we expect our other -- let's call it the other 85% of our business that is not affected by the crisis in Japan, to outperform, probably, what we thought would happen at the beginning of the year, and we are hoping that will mitigate this situation further, particularly as those businesses move towards or into the pre recession range of growth.

**Robert Jones** - *Goldman Sachs - Analyst*

Thanks for all the questions.

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

Okay. Thanks.

**Operator**

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

**John Kreger** - *William Blair & Company - Analyst*

Hi. Thanks very much. A follow-up to Bob's question about the situation in Japan. Are you out of inventory from your key supplier at this point or do you still have some?

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

No. Frankly, the reason that the crisis had impact on us in the US in the first quarter was, immediately after the crisis we put our customers on allocation, so it was a little bit self inflicted, right? We are holding inventory today -- it's not at normal levels, but it's a little bit diminished from normal levels, but it's going to carry us well into the second quarter. We probably will have some

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SKUs that will start to go on back order during the second quarter and then more in the third quarter, but we still have substantial inventories at least at this point in time.

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**John Kreger** - *William Blair & Company - Analyst*

Great. And then a follow-up to that realizing this is probably a pretty fluid situation. As you model out the timing of the supply disruption, from your perspective is the disruption likely to grow as you move towards 2012 or will it be moving back to a more normal situation by then?

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

Well that is a very good point. As I mentioned we had a modest impact or minimal impact really in the first quarter and that was some what self-inflicted when we put our customers on allocation. That impact will grow in the second quarter but will probably reach its peak in the back half of this year and then we would expect the mitigation efforts to start to have some impact towards the very end of this year and moving into 2012. The dynamics we see are that this is going to affect us a little more in the second quarter, much more in the third quarter, probably much more -- not more in the fourth quarter, about the same as the third quarter and then we'll start to recover from there.

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**John Kreger** - *William Blair & Company - Analyst*

Great. Thanks. And then just a final question. As you look at how commodity prices have been increasing as you look out over the next couple of quarters do you think the negative impact will grow for you? Is that reflected in your guidance?

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

Well, let me take a stab at this and I'm going to ask Chris to elaborate on it if there is more to say. Our expectations about inflation are in fact reflected in our guidance. Today, we see some modest increases in things like transportation, resin, energy costs et cetera. To the extent we can forecast inflation, we have taken that into account in our forecast. Chris do you have anything to add?

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**Christopher Clark** - *Dentsply International Inc - President, COO*

No. I think that is pretty accurate. It's really in utilities, transportation and some metal prices as well. But again, we factor that into -- we took a little bit more aggressive pricing increase coming into the year, and we will certainly factor that into your price increase thoughts as we move throughout the year.

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**John Kreger** - *William Blair & Company - Analyst*

Great. Thanks very much.

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

Thank you.

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**Operator**

We will go to our next question from Brandon Couillard with Jefferies.

**Brandon Couillard** - *Jefferies & Company - Analyst*

Bret, what is your sense of the general demand environment? Do you still feel like there is a pent up demand scenario in the market? Are we beginning to see some trade up to, say, discretionary type procedures or product franchises?

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

Good morning, Brandon. That is a good question as well. I think one of the things we saw with respect to the new products that we were bringing out in the quarter was there was an increased enthusiasm from dental professionals to buy the more premium products. I don't think it is an avalanche yet in that direction, but there is certainly a trend that direction, and that was evident in really the very strong increases we saw in our trade show performance in all three trade shows which Chris mentioned.

So, I think that trend may be occurring. Certainly the implant market has picked up from where it was. We saw that strongly in our results, growing almost double digits on internal growth basis, and we saw that in many of our competitors results as well that have been out over the last week or so. I do think there is a shift, it might be slight at the moment, but there is a shift back towards the more premium products, high performance products at this point.

**Brandon Couillard** - *Jefferies & Company - Analyst*

Thanks. And then Bill, is there any buyback assumed in the new EPS outlook? And then could you give us the FX impact to EPS both in the quarter and in your formal full year outlook?

**William Jellison** - *Dentsply International Inc - CFO, SVP*

Sure. From an EPS perspective I mean the guidance that we give you know the additional authorization that we have recently put in place which is about 12 million shares. I think that it is fair to assume that we have commitment to ultimately use the strength of our balance sheet further as we are moving forward here. How much or how little of that affects on the share repurchases we really don't comment on that until the period that we are actually doing it, but I think that it is fair to say that there is at least some expectation that there will be some share buyback, and I think that from an FX perspective within the quarter itself, the bottom line impact was actually virtually neutral. It was just less than \$0.005. I think moving forward is a different impact. I think based on where rates have currently gone just recently, I mean the euro is like at 147. The Swiss is out there around 114, 115. Those are very strong currencies relative to the dollar at this point. I think if those rates continue that we could see a slight benefit for us as we move through the year. I think our rates that we have got, at least at this point are probably more in the 140ish range for the euro and maybe right around -- the just south of the 110 level on the Swiss. Hopefully that gives you some indication on the direction.

**Brandon Couillard** - *Jefferies & Company - Analyst*

Thanks. And then lastly, would you characterize the quantification of Japan as a worst case type of scenario, how conservative do you think your -- I guess your quantification of that impact is? And any chance you could give us the revenue impact assumed in the \$0.12 to \$0.17?

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

This is Bret, Brandon. I would say that the \$0.17 is not an absolute worst case scenario. We have taken into account what we think reasonable scenarios would be, both on the low end and the high end and factored in a risk adjusted model. Could it be worse than the \$0.17? I guess it could possibly, but we don't think it is likely and that is why we gave you that range.

And the one big variable here, of course, is the new products we are going to bring in and take to market which makes the sales number, particularly variable, meaning we can control our costs much better than we can control sales. So I'm not prepared at this time to give you an impact of what the sales would be, but our total business impacted by this is about 13% to 14% of our total business, so that at least tells you the risk of range on the sales line.

**Brandon Couillard** - *Jefferies & Company - Analyst*

Great. Thank you.

**Operator**

(Operator Instructions). We'll take our next question from Jeff Johnson with Robert Baird.

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

Thank you. Good morning, guys. Can you hear me okay?

**Christopher Clark** - *Dentsply International Inc - President, COO*

Hey, Jeff.

**William Jellison** - *Dentsply International Inc - CFO, SVP*

Hi.

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

It's good.

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

Bret, just a question again on Japan, sorry to harp on that. But you mentioned in the press release making some cuts on the cost side as well. There is a rumor you had a pretty sizeable cut to your orthodontics sales force. Can you confirm that or talk about maybe any cuts you made there?

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

Yes. I am going to ask Chris to address that.

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**Christopher Clark** - *Dentsply International Inc - President, COO*

Yes, I would say, Jeff, that we certainly did implement some cost cutting initiatives, if you will, or cost balancing initiatives given the situation on the US business. That said, the impact on the sales force was minimal. Really most of the cuts were, frankly, related to the direct labor working in the plant because, obviously, we don't have work for them to do right now given the incoming inventory situation.

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

Okay. Fair enough. And then as I think about the recovery on this side of the business, Bret, you highlight that Q3 probably hits a peak and maybe stays elevated into Q4. Do you see it as a slow steady recovery going into 2012, or is there something where you could get a snapback recovery as inventory immediately comes online, or manufacturing I'm sorry, instantly comes online? How does it play out on the recovery side of things six, 12 months from now?

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

That is a good question, Jeff. I don't think it will be like a light switch. I believe as our supplier comes back on stream, starting up a plant that is this technically oriented there are usually some bugs, and so forth, you have to work out. I think them getting back to full production will be a process rather than an event.

Likewise, when we put the products back into our sales force's bag, it's going to be a process with them rather than a light switch, too. I think it will be a building process that is coming off the low that we will likely see in the third quarter and perhaps early in the fourth quarter.

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

Alright. And on that business, obviously, you guys have been distributing that product for quite awhile. Any thoughts on whether or not something like this could lead to a change where you could actually take control there? Has that been pursued at all? Is the family that owns that business not interested at all at this point despite the circumstances?

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

Jeff, you are not going to be very satisfied with this, but I don't want to comment on discussions with the family. They are a very private family and deserve not to have this thing discussed publicly. And besides that we don't comment on acquisitions that are in process until we are ready to announce them. This is a very fluid and dynamic situation. We are considering all alternatives at this stage, and hoping to rebuild this business as quickly as we can through a number of avenues.

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

Alright. Well, that is actually more than I thought I would get out of you on that, so thanks. Last question, I guess. Bill, when we had dinner with you around the Chicago meeting it sounded like you were a little more aggressive on the M&A front, or pipeline was pretty full at that point. Does the Japan impact that or does the Japan situation impact the M&A thoughts this year, or how would you describe M&A pipeline at this point?

**William Jellison** - *Dentsply International Inc - CFO, SVP*

I think the primary message there, Jeff, was that we realize the strength of our balance sheet right now, we realize the amount of cash that we have on our balance sheet. I think it is always fair to say that we are active on looking at a number of different

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acquisitions. I would say with the strength of the balance sheet that we have today, which is stronger than really it has ever been. I think you should assume that we are very active on that front on a number of different areas, and the Japanese situation does not have an impact on that at all.

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

Great. Thanks, guys.

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

Thanks, Jeff.

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**Operator**

We will take our next question from [Elliot Salsman] with Barclays Capital.

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**Unidentified Participant** - *Analyst*

Hey, guys. Good morning. Thanks for all the detail thus far. This is Elliott filling in for Larry Marsh. Moving away from Japan just for a second. I know you guys mentioned double digit growth in implants. Wondering if that was sort of consistent with market growth? I believe you guys expanded the North American implant sales force the beginning of last year. I was just wondering if you could give us a sense of maybe some of the pricing dynamics you're also seeing there and which geographies are performing better than others, particularly as it relates to the implants space?.

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

Sure. I will stake a stab at that and if Chris has something to add, he can add it. I think the premium implant market -- we are trying to gather some information because there were two announcements this morning from other premium players. But it seems like everybody has basically entered now and reported, and I would say that the market is growing kind of low to mid single digits. My best guess would be like 4% to 5% for the premium segment, and we are growing 2 X that or 2.5X that, or something like that, so I think we are certainly taking share.

We have a very strong technology platform in the implants business. Very good prosthetics. We expanded the sales force, but that is at least a year past this date. We've continue to get very good customer acceptance of the system we have both here in the United States where we are newer to the market and in Europe where we are a more established player. Did I miss anything there?

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**Christopher Clark** - *Dentsply International Inc - President, COO*

No. I guess I would characterize that our growth is higher in the US, that is up double digits. We continue to think while that market has come back, maybe a little bit better than the other markets, we continue to outpace market growth with the investments in the sales reps we did. We are continuing to invest there. We have a got a key symposium coming up at the end of June with some key opinion leaders as well in the US. We are excited about that opportunity. I would say rest of world growth is also very strong on a number of areas as well as in particularly in emerging markets. I think there is a lot of momentum across the implant business globally. We are pretty excited about it and we think the Ankylos system is a pretty hot commodity right now.

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**Unidentified Participant** - - Analyst

Okay. That's very helpful, thanks.

**Operator**

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

**Scott Green** - BofA Merrill Lynch - Analyst

Hi, thanks for the questions. I guess my one or two on Japan. Just to make sure that I understand your tone. So, do you expect the rebuilding process in Japan into next year? Is that going to be more getting the supply up, or you're optimistic based on your efforts that sourcing should be okay? It is going to be more recapturing any lost sales in the market next year?

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

I actually think it is a combination of those two things. The process of moving to a new facility, buying new equipment, installing it, validating it and getting back to production volumes, that is going to be a -- it is not a short-term fix. It is a long-term fix. And our business partner, our supplier is in the process of initiating that and doing that now. Where, like I said before, the equipment is on order. I think it is fair to say that the product portfolio we are going to have in the interim is not identical to the product portfolio we had before, so there is going to be some customer shifting I would guess. And when we get back into full production we will have to work very hard to shift them back. So I think it is a combination of those two points that you raised.

**Scott Green** - BofA Merrill Lynch - Analyst

Okay. Well I guess for precedence, I recall you had some supply disruption in 2008 in an anesthetic line. Is there anything you could look at there to gage what kind of sales you ultimately recovered, or is that not a good comparison?

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

I don't think that is a good comparison necessarily, Scott, because that product even though it is a sophisticated product, it's a commodity. There was identical product available in the marketplace to sap up the supply disruption that we faced. In this case, the products are very unique and very technique sensitive and they're patented. And thus there is not going to be identical products in the marketplace for some of these SKUs, not for the whole portfolio, but for some of the SKUs until we get the existing supplier back up and running.

**Scott Green** - BofA Merrill Lynch - Analyst

Okay. So maybe that makes you a little more confident you can recapture some of these sales going forward if dentists that are using your product are, obviously, comfortable with it and it is a unique one? Is that fair?

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

That is a good observation. The products that we are going to have in the market in the interim will be competing head to head with other competitors products, but the products that will be out of stock for awhile are the more unique parts of the line, and

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thus have some substantial sales and marketing benefits, technical benefits to the practitioner, and thus if they liked them before they might be more willing to migrate right back to them. Hard to tell.

**Scott Green** - BofA Merrill Lynch - Analyst

Okay. That's helpful. And another topic. So what is your expectation at this point for your internal growth ex the Japan issues? I guess going into the year you thought it might be a little higher year-over-year, maybe a around 3%. With is the updated view now?

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

Well, internal growth in the first quarter was 3.8% and it was depressed by probably a little less than 0.05%. So we would have been in the low 4% for the first quarter. The market looks strong to us. We don't have official internal growth guidance in the market place. Hopefully from the language that you heard this morning and our results from these trade shows you get the sense that we are pretty optimistic at this point. That the other 85% of our business can perform pretty well in 2011.

**Scott Green** - BofA Merrill Lynch - Analyst

Okay. All right. And then lastly. It would be helpful -- can you just tell us other -- in your breakout segment US versus Europe versus rest of world which of those regions you think -- will some be more impacted than others from the supply disruption? How should we think about growth in each of those for the remainder of the year? Just qualitatively which do you think would be impacted more than the others?

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

Qualitatively, I think it would be the US would be the highest, Europe would be the next highest and the emerging -- rest of the world and emerging markets would be the lowest. The lowest impacted by the supply disruption.

**Scott Green** - BofA Merrill Lynch - Analyst

Okay. Okay. Thank you.

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

Okay. Thank you.

**Operator**

And that does conclude the question and answer session today. At this time, Mr. Leckow, I will turn the conference back over to you for additional or closing remarks.

**Derek Leckow** - Dentsply International Inc - VP, Investor Relations

Thanks, Kelly. Well, thank you, everyone. That concludes our conference call today. We thank you for your interest in DENTSPLY and look forward to seeing you at upcoming investor conferences. If you have any follow-up questions please contact Investor Relations. Goodbye.

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**Operator**

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

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