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XRAY - Q1 2016 Dentsply Sirona Inc Earnings Call

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OVERVIEW:

Co. reported 1Q16 reported revenues of \$772.6m and diluted GAAP EPS of \$0.70.
Expects FY16 adjusted non-GAAP EPS to be \$2.70-2.80.



CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good day and welcome to the DENTSPLY SIRONA Incorporated first-quarter 2016 earnings conference call. Today's conference is being recorded.

At this time I would like to turn the conference over to Mr. Joshua Zable, Vice President of Investor Relations and Corporate Communications. Sir, you may begin.

Joshua Zable - *DENTSPLY SIRONA Inc. - VP IR & Corporate Communications*

Thank you and good morning, everyone. Welcome to our first-quarter 2016 conference call. I would like to remind you that an earnings slide deck presentation relating to this call is available on our website at www.DentsplySirona.com.

Before we begin, please take a moment to read the forward-looking statements on slides 2 and 3 of our earnings slide presentation. During today's conference call, we'll make certain predictive statements that reflect our current views about our future performance and financial results. We base these statements on certain assumptions and expectations of future events that are subject to risks and uncertainties. Our most recent Form 10-K lists some of our most important risk factors that could cause actual results to differ from our predictions.

With that, I'll now turn the program over to Jeffrey Slovin, Chief Executive Officer of DENTSPLY SIRONA.

Jeffrey Slovin - *DENTSPLY SIRONA Inc. - CEO*

Thanks, Josh. It is my pleasure to welcome all of you to our first-quarter and first-ever conference call as DENTSPLY SIRONA. Also joining us on the call today: Uli Michel, Executive Vice President and Chief Financial Officer; Chris Clark, President and Chief Operating Officer of our Technologies business; and Derek Leckow, Vice President of Investor Relations.



I'm delighted to report that our first-quarter was a very successful one. We seamlessly completed our merger and began working on the great opportunities ahead of us.

Rather than being distracted by the merger, the team came together and was energized to perform. In our first 67 days together, DENTSPLY SIRONA team has much to be proud of. We've rebranded our Company, announced our leadership team, and created an operating model to help optimize our growth.

As you can see on the earnings presentation, we have organized ourselves into two segments: Dental and Healthcare Consumables, and Technologies. Our Dental and Healthcare Consumables business is comprised of our endodontics, preventive, prosthetics, restorative, and instruments division along with WELLSPECT, our healthcare business. Our Technologies business is comprised of our implant, CAD/CAM, imaging, treatment center, and orthodontic businesses.

We've organized these segments to maximize efficiency and product development and cross-selling opportunities. In addition to developing new standalone products, our segments will introduce integrated solutions to improve workflow and advance patient care.

Within Technologies, our loyal installed base of CAD/CAM and imaging has been expanding to incorporate more specialty procedures. For decades we have a proven track record of using technology to allow the dentist to advance patient care both in terms of outcome and treatment times.

Now we are moving toward integrated solutions, using technology combined with clinical products to provide dentists with end-to-end solutions and advance their own service capabilities. This was first evident in restorative, but is now moving rapidly into implant, orthodontics, and endodontics.

These capabilities, further facilitated with DENTSPLY SIRONA's world-class clinical education platform, creates a powerful basis for advanced learnings in clinical settings.

Along the same lines, specialists are demanding more high-tech equipment, like 3D imaging and digital impressions. Our relationships with these practitioners will help drive adoption of our technologies.

From a product development standpoint, combining the experience and knowledge of our strategic business units will enable the development of integrated technologies. Furthermore, by collaborating, innovation should come faster and offer more to practitioners than ever before.

In Consumables, the majority of our revenues are operatory related and often used in conjunction with one another. We are focusing on offering practitioners end-to-end solutions based on particular procedures.

All root canal procedures require multiple tools and are completed with the restoration. DENTSPLY SIRONA is the only manufacturer with restorodontics strategy, offering all the necessary instruments, equipment, and consumables to diagnose and complete a root canal from start to finish.

As you can see, the goal of organizing into these segments was to accelerate adoption of all of our products, which will translate into top-line growth. By driving growth and increasing productivity of our sales and service infrastructure, we will leverage our sales to deliver strong bottom-line growth as well.

With so many opportunities ahead, we have created an integration management office to work hand-in-hand with senior management to oversee the seamless merging of both Companies and cultures. In order to capture our synergies, we have formed multiple teams to actively manage our cost and revenue initiatives.

Feedback from these teams have been overwhelmingly positive. Ideas are being shared across organizations, and plans are being implemented to ensure these synergies come to fruition. We are confident that we can deliver on our promise of \$125 million in synergies by year three of our merger.

Capital allocation will also be an important part of our go-forward strategy. Our Company generates a significant amount of free cash flow, and we have a large and flexible balance sheet. As always, our priority is to invest in growth drivers for our business.

We will also use our cash flow to make acquisitions, repurchase our stock, and support our dividend. During the quarter, we executed on the \$500 million share repurchase, consistent with the announcement we made at the time of the merger.

We continue to have 3.6 million shares authorized for repurchase. We have flexibility to pursue multiple avenues of capital deployment, all of which will drive value for our shareholders.

The opportunity ahead of us is more significant than anything either DENTSPLY or Sirona ever had on a standalone basis. We have never been in a better position to grow and deliver shareholder value.

Turning to the first quarter, Uli will explain some of the technicalities on the reported revenue growth. I will focus my comments here on the underlying growth of our two combined businesses.

Although the merger closed on February 29, I think it is more meaningful to discuss the performance of our business during the full quarter. We achieved strong results, with our combined businesses growing 6.5% constant currency. Excluding acquisitions, divestitures, and discontinued products, internal sales growth was 5.5%.

Geographically, we had solid growth across all regions. Rest of world led our growth, delivering 8.4% constant currency, driven by internal sales growth of 7.5%.

There continue to be a number of challenging environments around the globe, but we are much better positioned after the merger in these areas. We expect our rest of world region to be the fastest-growing region this year.

The US grew 8.8% constant currency, driven by internal growth of 5.7%, led by the Technologies segment. Europe grew 3.1% constant currency, with internal sales growth of 4%, driven by solid growth in both our Technologies and Consumables segment.

On a segment basis, Technology business led our growth with 9.6% constant currency growth. Internally generated sales grew 6.8%, led by a strong growth in our high-tech products. CAD/CAM was particularly strong ahead of our new zirconia product launch.

In Q1, Dental and Healthcare Consumables generated internal sales growth of 4.5%. Growth was driven by operatory-focused consumables.

First-quarter adjusted EPS was \$0.69, representing 17% growth. We achieved strong financial results while investing in R&D and in our sales and service infrastructure. We will continue to ramp these investments in Q2 to better position our accelerating growth.

Innovation and best-in-class customer service will be two key pillars of our new organization. Overall, we reported a very solid first quarter. I'll now turn the call over to Uli, who will review our first-quarter financials.

Uli Michel - DENTSPLY SIRONA Inc. - EVP, CFO

Thanks, Jeff, and good morning, everyone. This morning I will discuss our GAAP results as well as our non-GAAP results, including the sales performance of our combined businesses for the complete three-month period of the first-quarter 2016 as if the businesses had been consolidated on January 1, 2015. I'll walk through the earnings performance; I will also point out any impacts of merger accounting on earnings.

In the first quarter, our reported revenues increased \$116.3 million to \$772.6 million, up 17.7% reported. The consolidation of one month of Sirona contributed sales of \$128.9 million, which were reduced by \$8.8 million to \$120.1 million as a result of purchase accounting.

This reduction from our normal revenue recognition practices results from a one-time treatment of deferred income on service contracts, where any deferred income at the time of the merger is removed from future revenues and income. This one-time treatment reduced revenue by \$8.8 million this quarter and will reduce future revenue by about \$8 million in the aggregate over the next six quarters.

As of March 1, any new contracts are again being treated as they have been historically. For non-GAAP reporting, we will treat all the contracts existing at the time of the merger under the ongoing policy as if incurred in normal course of business.

For the full three-month period ended March 31, 2016, adjusted sales of our combined businesses, excluding precious metals, grew 6.5% on a constant currency basis. Internal growth was 5.5%, excluding 1.7% favorable impact from net acquisition and 70 basis points unfavorable impact from discontinued products.

Foreign exchange movements were a headwind to revenue of 2.6%.

Jeff already addressed revenue growth by geography and segment. We have provided reconciliation tables for every segment and region that will help you understand how the GAAP reported revenue and internal growth for the complete quarter come together.

US GAAP gross profit was \$418.9 million, up \$45.5 million from \$373.4 million in 2015. Gross profit as a percentage of net sales, excluding precious metal content, decreased by 360 basis points to 55.5% from 59.1% in the prior year.

As you can see on the non-GAAP reconciliation tables, the gross profit margin was negatively impacted by about 500 basis points due to the rolloff of merger-related fair value adjustments.

The Company generated benefits from its global efficiency program which were largely offset by negative foreign currency impacts. Reported SG&A expenses, which include R&D, were \$342.1 million, up \$71.8 million versus last year. SG&A expenses as a percentage of sales, excluding precious metals, increased 250 basis points compared to prior year.

Merger-related expenses negatively impacted the rate by about 500 basis points, partially offset by savings from the global efficiency program and the consolidation of Sirona. SG&A expenses were favorably impacted by foreign currency translation of approximately 100 basis points.

Restructuring expenses were \$4.1 million, down \$1.3 million from last year. In total, GAAP operating income was \$72.7 million, representing 9.6% of sales, excluding precious metals.

Excluding the non-GAAP items set forth in our non-GAAP financial measures, the adjusted operating margin was 22.2%, which compares to 18.7% last year. Margins benefited from the positive impacts of the global efficiency program and the consolidation of Sirona.

Due to the strong performance in March, the benefit from the consolidation is more pronounced. Had we consolidated Sirona for the complete three-month period, our adjusted operating margin would have been approximately 150 basis points lower. We believe this is more representative of the current performance level of our business.

Net interest expense for the first quarter was \$8.7 million, \$1.3 million lower than prior year, largely driven by lower average debt levels. Other income in the first quarter was \$3.4 million, with the biggest impact coming from a small business divestiture which was removed from adjusted income.

For the three months ended March 31, 2016, income taxes were a net benefit of \$57.9 million versus an expense of \$18.9 million last year. As part of the merger, we will be able to generate an early synergy by recovering previously reserved tax assets of \$76.1 million.

This is the single biggest driver of the favorable development and will be recovered in cash in future periods. We have removed this benefit from our non-GAAP results.

As a result, Q1 US GAAP net income attributable to DENTSPLY SIRONA was \$125 million, up 95.3% from the prior year. First-quarter 2016 diluted GAAP EPS was \$0.70 compared to \$0.45 in the prior year.

Adjusted non-GAAP earnings per share was \$0.69, up 16.9% from last year. For a reconciliation of GAAP EPS to non-GAAP adjusted EPS, please see our earnings press release.

Cash flow from operating activities during the three-month period ended March 31, 2016, was \$0.7 million compared to \$65.6 million during the three-month period ended March 31, 2015. The year-over-year decrease was primarily related to a \$56.9 million larger increase in accounts receivable due to stronger revenues in the month of March, and payments of approximately \$40 million of merger-related transaction fees and integration costs.

Cash provided by investing activities was \$504 million favorable, which reflects the assumed cash in the merger with Sirona of \$522.3 million. These funds were largely used to execute the \$500 million share repurchase, which in exchange is the major driver behind the \$472.8 million cash used in financing activities.

The Company's cash and cash equivalents increased by \$38.5 million to \$323.1 million during the three months ended March 31, 2016.

Now turning to guidance. For fiscal 2016, we expect adjusted non-GAAP EPS in the range of \$2.70 to \$2.80. Our guidance includes the following assumptions.

Constant currency sales growth to range from 4% to 6% excluding precious metals; this includes a 1% benefit from acquisitions, divestitures, and discontinued products, and internal growth in the range of 3% to 5%. At current exchange rates, this translates to reported revenues, excluding precious metals, of \$3.73 billion to \$3.81 billion.

Please keep in mind that growth comps get more difficult in Q2 and Q3 related to last year's record international dental show and strong performance in our consumables business.

At the current exchange rates, we would expect adjusted operating income margins in the range of 21% to 22%. We anticipate our adjusted tax rate to be approximately 23%.

Our EPS range implies a full-year share count of 220 million to 225 million fully diluted shares. Our share count will increase to 238 million as we move into Q2.

I will now turn the call back to Jeff.

Jeffrey Slovin - DENTSPLY SIRONA Inc. - CEO

Thanks, Uli. We are in the very early days of our journey as DENTSPLY SIRONA, but we have a lot to be excited about. The key driving force behind our merger was growth. By accelerating the adoption of our products, we can bring about the full impact of digital dentistry in the dental practice.

We can integrate equipment and consumables to meet the growing need for more efficient workflows. We will set new standards of care while meeting the growing demand for end-to-end solutions.

At DENTSPLY SIRONA, we are the only company that can further drive these trends and are best positioned to benefit from them. Our installed base of equipment is the largest in the world. Our customers are loyal and supportive. They understand that our products are built to help them become more successful, which is driving our growth.

Every day around 600,000 dental professional use DENTSPLY SIRONA product. Our reach is unparalleled, and our brands are the most well known in the industry. DENTSPLY SIRONA is associated with quality and innovation.



We have the broadest clinical education platform in dentistry. Each year we trained more than 300,000 dental professionals on our products. Training builds loyalty to our Company and our products, especially when they make procedures easier or more efficient.

We also are able to deliver all of our offerings around the globe, with the largest sales and service infrastructure in the industry. We are supported by 4,000 sales professionals and around 5,000 distributors around the globe.

We also have heard combining all of our capabilities creates synergy opportunities. From a cost perspective, coming together will create opportunities to leverage our supply chain and cost structure.

Building off the legacy DENTSPLY efficiency program, we already have a platform to evaluate opportunities and a team to execute on them. We are evaluating ways to improve our processes and manufacture more efficiently.

We have begun cutting redundant corporate expenses and consolidating some of our countries. All of these actions will generate tangible cost savings, and create a more leverageable cost structure.

We expect to achieve these savings while continuing to invest in R&D and our sales and service infrastructure. With more innovations and farther reach, we can cross-sell to our mutual customers or create bundles that specifically cater to each customer.

We have been working closely with our distributors to develop plans that create growth opportunities for ourselves and our partners. Some of these successes involve salespeople coming together to move the combined business forward. We already have a number of stories from the field of reps introducing customers to our expanded portfolio.

We have a large sales organization around the globe, and they've been meeting to find more ways to collaborate and accelerate growth, while working with and respecting a wide range of distributor relationships that we have in place. These are win-win scenarios for DENTSPLY SIRONA and our distribution partners.

The more significant opportunities will require investment in both R&D and infrastructure. While these take time and will mean that some of our revenue synergies are back-end-loaded to our third year, we are extremely confident that we can deliver them and they will be significant.

While these integrated solutions are in development, our R&D engine is continuing to introduce innovation to drive penetration of our products. We have recently introduced a number of new, meaningful products to the market.

Our SUREFIL SDR+ builds on our revolutionary market-leading bulk fill composite platform. The product has enhanced radiopacity and interproximal wear.

In our healthcare business, the new Navina bowel management system provides a novel approach to irrigation in a rapidly expanding market. Early feedback has been overwhelmingly positive.

During the quarter, we launched our CEREC zirconia package, which was well received by the market. The zirconia package includes the new CEREC SpeedFire, our unique high-speed sintering furnace.

In combination with the CEREC chairside CAD/CAM system, it allows for single-visit dentistry of zirconia crowns and small bridges. In the past, using conventional furnaces, zirconia needed about two hours for sintering; therefore, zirconia was exquisitely processed in the dental lab. CEREC SpeedFire brings sintering time down to about 15 minutes and opens up the possibility of processing zirconia chairside.

Zirconia is the most popular ceramic material for crowns in the US. Having this material available for CEREC will substantially expand the addressable market for CEREC.

In conjunction with our launch we also introduced CEREC chairside zirconia blocks and our new CALIBRA ceramic cement, the first DENTSPLY SIRONA cement to address CAD/CAM restorations. As part of our launch, we also provided a materials and accessories starter kit for all new users of zirconia packages. Combining these new products with our CELTRA Duo blocks means that we can now offer dentists the tools and materials for all of our chairside restorations.

To complement this we have the outstanding relationships with our material partners that we continue to build on. We will continue to invest in new CEREC consumables specialist salesforce to work hand-in-hand with our equipment specialists to deliver a full value proposition to dental professionals. They now can source all of their CAD/CAM needs from DENTSPLY SIRONA.

Our efforts are already paying off. Our CELTRA and zirconia lines are growing rapidly. This is the first example of DENTSPLY SIRONA's leadership in both equipment and consumables coming together to drive growth globally.

We will continue to launch over 30 new products every year. Our new product pipeline is robust.

We provide best-in-class equipment and consumables. We can accelerate the adoption of technology and drive sales of our entire product portfolio.

We have a number of additional opportunities to quickly integrate our technology and consumable offerings. Orthodontists are rapidly adopting 3D imaging and digital impressing systems. We have the most open orthodontic camera on the market, and we can benefit from our seamless integration with our own MTM ClearAligner brands.

Coupled with our brackets and wires, orthodontists can now treat a patient from diagnosis to treatment. From the initial x-ray to impression and then to treatment, orthodontists can choose from an array of DENTSPLY SIRONA products to effectively treat patients.

Where CEREC meets 3D, we offer the safest and easiest chairside implant planning. As I mentioned, our implant salesforce is already generating leads for imaging and CAD/CAM and planning joint clinical education events to train doctors on the DENTSPLY SIRONA implants line.

An important part of our clinical education strategy is partnering with dental schools around the globe. In the US, DENTSPLY SIRONA products are in virtually all dental and dental hygiene schools.

Our endo business currently partners with 100% of US endo residency programs. Today, DENTSPLY SIRONA is training the next generation of dentists on products and introducing them to best-in-class solutions. Once they graduate and enter the workforce, they will demand technology and integrated solutions. DENTSPLY SIRONA is the only manufacturer that can meet this growing trend, and we will.

To deliver all of our solutions to the market, we will continue to invest in our sales and service infrastructure. This quarter, we built out our infrastructure in Mexico and continued expanding our presence in China and India.

While we will leverage our infrastructure to sell more efficiently, we remain focused on accelerating long-term top-line growth. Overall, I am excited to see the DENTSPLY SIRONA team unite and deliver a strong first quarter. As The Dental Solutions Company, DENTSPLY SIRONA will transform the dental market.

I'd like to thank our customers for their loyal support, trust, and enthusiasm for DENTSPLY SIRONA. We are pleased to recognize our distribution partners for helping us achieve our very successful quarter.

I'd also like to extend a special thanks to our 15,000 employees who work hard each and every day to improve the lives of dentists and their patients. Together, we will change dentistry for the better.

We will now address your questions. Operator, please proceed.



QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jeff Johnson, Robert Baird.

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

Congratulations, guys, on a good first quarter here. Jeff, just wanted to start with you and, then I have a follow-up for Uli. But I know you've only been in the seat now for a couple months here, running the combined Companies, but as you put everything together, any sense yet on how you're thinking about the next several years from a top-line perspective or maybe from an earnings growth perspective? Just how you're seeing the two Companies come together.

Jeffrey Slovin - DENTSPLY SIRONA Inc. - CEO

New Company, same old questions, right? Look, I think -- first of all, it is early days; and I have to tell you I'm thrilled with what the team's been able to do together. Frankly, one of the nice surprises is to see how talented we are across the globe in sales, marketing, R&D, and certainly our functional areas, HR, and finance.

It's a big deal when two of the largest companies come together to make sure that you have the right cultural fit. But one thing's for sure that we aligned on is really on our mission, Jeff, which is to empower dental professionals to deliver better, safer, faster dental care.

This idea of end-to-end solutions is where we feel the market is going. A key fundamental to the merger was growth, so we expect to grow faster in the future; and the reason for that is we're better together to be able to accelerate the adoption of technologies and digital dentistry.

Frankly, when we look at what is possible on the synergy side, as you look at our specialty areas as well as our technology, there's a lot of things that we see early days that are just going to continue to play for us. Of course, single-visit dentistry is just getting stronger. It's difficult to say if we're at a tipping point yet, but we feel better about that.

And our ability to work with CAD/CAM and implant and ortho certainly gives us a strong feel for our ability to mobilize our synergy opportunities. So there's a lot of genuine excitement here, and I think it's truly great for the dental industry and our distributor partners, because we're going to do a lot of great things together.

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

All right, great. Uli, maybe my follow-up question. As I look at the EPS guidance over the balance of this year, it looks like it's low single digits EPS growth. We don't have the pro forma net income, pro forma operating income from last year. But when I mash your two models together and look at the net income, operating income growth this year, it looks like even on a pro forma combined basis, this year over last year, it's going to be much higher than that low single digit.

So what am I missing there between the operating income and net income, good solid growth, and the EPS growth that looks like it's going to come in lower than that over the balance of the year?

Uli Michel - DENTSPLY SIRONA Inc. - EVP, CFO

I think, Jeff, the best way to think about it or to bridge it for you is if we start with DENTSPLY's standalone EPS last year of \$2.62, right? And we take the midpoint of our guidance this year, \$2.75; so this would be a \$0.13 increase, or a 5%, which you probably refer to as low single digits, right?

Then I told you that we expect FX headwinds of about \$0.10, which would add another 4%. As you know, we've issued DENTSPLY shares in exchange for Sirona shares; and with the multiple difference, we issued -- it depends on if you look at it trailing or forward-looking -- but somewhere in the neighborhood of 15 million, 16 million more shares for the same earnings than had we issued the shares at the same multiple.

So this gives you a dilutive impact for the full year of somewhere in the neighborhood of \$0.15 to \$0.17; say \$0.16 for argument's sake. So that's another 6%. And if you add this up, you look at EPS growth, excluding FX and excluding the difference of the multiple on the issuance, of about 15%.

If you use this I think you can back into our earnings growth from there. Does that answer your question?

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

Yes, I'll go back and check my math, but that's helpful. Thank you, Uli.

Operator

Robert Willoughby, Credit Suisse.

Tyler Harris - *Credit Suisse - Analyst*

Hey, guys. It's Tyler Harris for Bob today. It looks like you guys had pretty impressive internal growth rates across-the-board in the quarter. Can you give us any additional color on specific countries', markets' growth rates, especially in regards to Europe and Asia-Pacific?

Jeffrey Slovin - *DENTSPLY SIRONA Inc. - CEO*

Sure. I think we were across-the-board strong. No question about it.

Rest of world led the way for us. Of course, in the Rest of World -- let's start there. A number of those areas are challenged.

Japan, of course, is a very important market for us, but it has its challenges. But we continued to perform well. You'll start to hear a theme here, Tyler.

China also had some challenges. But very pleased with what the team was able to accomplish there.

and even Brazil, which certainly has its challenges, we were able to do particularly well in the consumables area, which is pleasing for us. We expect the rest of world to be a growth driver for us for the rest of the year.

In Europe, we did well. We haven't seen anything really change over the last six months.

Frankly, Russia still has some challenges, but I was pleased with how the team was able to perform, especially looking at our pipeline ahead. We have a number of projects there.

Southern Europe seems to be picking up for us, albeit it's a low base. Germany performed, but did not lead Europe. And then we saw strong growth in both Technologies and Consumables in Europe.

But I would caution that our second quarter will be a difficult comp because of IDS last year. Keep in mind that IDS was a record for us.



In the US, again, very strong growth led by Technologies and also operator Consumables. We feel good about what we were able to accomplish. We also see that the US market is improving, and the underlying demand for our products are strong.

Tyler Harris - *Credit Suisse - Analyst*

Thank you.

Operator

Robert Jones, Goldman Sachs.

Robert Jones - *Goldman Sachs - Analyst*

Thanks for the questions. The original view was for the deal to be accretive in year one. Now, Jeff, that you've had a little bit more time -- not a ton -- but a little bit more time to put the Companies together and evaluate, as well as evaluate the synergies a little bit more deeply, can you maybe just give us a better sense of what you're seeing as far as the accretion? Or what your expectation is as far as the accretion will be in 2016 specifically?

Jeffrey Slovin - *DENTSPLY SIRONA Inc. - CEO*

Well, specifically, we're not going to get into that. But we say we're not backing off of our being accretive over the first 12 months, absolutely.

We see such a positive ability to grow together. Of course, we've had a little headwind that Uli has talked about. But by and large, everything is on track or doing better.

Again, 67 days into this; pleased about how the team has mobilized together. We've certainly got some FX headwinds. And as Uli I think did a very nice job earlier, talked about the share count headwind as well.

But from a standpoint of growth in this market, 4% to 6% we think is leading the way, and we feel good about our prospects for the rest of 2016. And we started our year with a very solid quarter. So I think we're in a good place, Bob.

Robert Jones - *Goldman Sachs - Analyst*

Got it, got it. Then I guess just one specific one on the Technologies segment. Really nice growth there in the quarter. Was wondering if you could comment on the sales of CAD/CAM specifically.

As your channel partner in North America had talked about carrying a higher level of inventory coming into this year, I'm just trying to get a balance between what maybe they are holding versus what the end market is really doing. Any comments around that would be really helpful.

Jeffrey Slovin - *DENTSPLY SIRONA Inc. - CEO*

Well, I mean certainly technology led the way at 6.5% for the quarter, and certainly was leading the way in the US as well. That was led by CAD/CAM. So the proposition has not changed with regard to us believing, along with Patterson, that CEREC will become a standard of care and we're on the appropriate trajectory for that.

Do you know -- keep in mind also that we launched the new zirconia blocks. But more critical to that was our SpeedFire. There was a lot of interest ahead of that, and I think that it's a situation where we've got a lot of opportunities for CEREC in North America and will continue to.

Uli, do you want to comment (multiple speakers)?

Uli Michel - *DENTSPLY SIRONA Inc. - EVP, CFO*

No, I think you mentioned it with the launch of the SpeedFire. I think people geared up to be ready to deliver, right? And we had a really good growth in CAD/CAM. It was nothing to be ashamed of, right? Very solid growth.

Robert Jones - *Goldman Sachs - Analyst*

No, agreed. Thanks so much for the comments.

Operator

John Kreger, William Blair.

Robbie Fatta - *William Blair & Company - Analyst*

Hi, good morning, guys. This is Robbie Fatta in for John today. Thanks for taking the questions.

As we think about the new segment structure, is there any additional detail you will be giving going forward on some of the subsegments? I know we talked about CAD/CAM a little bit; but imaging or implants, or any of the traditional subsegments that we used to get more detail on: will we be getting any going forward?

Jeffrey Slovin - *DENTSPLY SIRONA Inc. - CEO*

Well, we'll certainly give you color for how they performed and certainly talk about new products. The idea is, we've spent a lot of time thinking about how best to structure our organization. How could it be most meaningful for our organization to grow, to create value, to be able to untap both cost and revenue synergies?

So that structure also means that when you look at our overall business that there isn't any business that is really more than 15% -- so going down to our smallest, which is instruments. We're trying to get people focused on Technology and Consumable, but certainly we'll deal with the strategic business units within it.

You had mentioned imaging. Imaging had a solid quarter and grew above the Technology average. It was across all regions; so it was pretty strong growth.

Robbie Fatta - *William Blair & Company - Analyst*

Great. If we could just focus on implants for a second then, can you give us a sense what the growth was for that in the quarter? Then maybe our sense is that the potential synergies that you could generate is pretty big in the implant group. Probably -- maybe the biggest out of all of them. Is that a fair --?

Jeffrey Slovin - *DENTSPLY SIRONA Inc. - CEO*

Let's start with that because I think that is absolutely an on-point comment. We think implant is a strategic fulcrum for us. We see how it relates to both our CAD/CAM and imaging business.

We believe we are well positioned with our product offerings there. We think this is a category that will continue to grow. We have certainly a strong product offering there.

When you couple that with CEREC, ATLANTIS, SIMPLANT, and ISUS, it's a robust offering. Rest of world did better for us there; we were pleased to see the volume come up, pick up a bit for us there.

We saw some challenges in Europe. And certainly a market that we're very excited about that we think we can do a lot more in is in the US. Chris, do you want to make a few more comments?

Chris Clark - DENTSPLY SIRONA Inc. - President & COO Technologies

Yes, absolutely. Thanks, Jeff. I mean I think I agree to all those comments. I think this is one where both parties came with very significant and meaningful assets to come together.

You think about again, the implant is going digital. Obviously we have the CEREC. We have all the imaging coming from the Sirona side. We've got the ATLANTIS, SIMPLANT, ISUS coming from the DENTSPLY side.

I would say I'm very pleased with how these teams have come together, both from the standpoint of longer term or middle term, if you will, as well, product synergies.

But in addition to that, some nearer-term opportunities in terms of lead-sharing, KOL sharing, etc., that -- again there's a lot excitement, a lot of movement, and a lot of energy.

Again, as Jeff mentioned, we've got expectations here that this really does accelerate implant growth rate and also, frankly, helps imaging and CAD/CAM over time as well.

Jeffrey Slovin - DENTSPLY SIRONA Inc. - CEO

Yes, I mean when you just think about the clinical education, the engagement of our KOLs, the possibility of what we're able to do together with our Technologies and in implant are pretty substantial.

Robbie Fatta - William Blair & Company - Analyst

Great. Thanks very much.

Operator

(Operator Instructions) Matt Miksic, UBS.

Vik Chopra - UBS - Analyst

Hey, good morning guys. This is Vik in for Matt. Thanks for taking the question. I just had a couple over here.

Can you help us understand the puts and takes on gross margin? I know you had mentioned FX and your global efficiency programs. Anything in particular on product mix, for example?

And then how should we think about gross margin for 2016? Anything in particular we should keep in mind over the next three quarters?

Jeffrey Slovin - DENTSPLY SIRONA Inc. - CEO

Well, let me start and then I'll hand it over to Uli on that. But you need to understand that product mix and regional mix can have a significant impact in any quarter.

But now that we talk about our businesses -- no business being greater than 15%, coming all the way down to 3% -- it should take some of that lumpiness out of it. But nevertheless, in a quarter it can have the impact of more than 75 basis points, over 100, depending on the mix.

So mix does play a role, no question about it. But the way to start to think about that is how we talk about how the Consumables or the Technology businesses grew in the quarter. That's the first thing you need to think about.

But we're trying to also get you focused on our operating income, which we think is a better lever to understand our businesses. But go ahead.

Uli Michel - DENTSPLY SIRONA Inc. - EVP, CFO

Yes, I think as you look at our margins in Q1, we provided you with the rec tables. I talked a little bit on the prepared remarks on the GAAP versus non-GAAP items. So I think what you see on the rec table is a margin a little bit over 60% reported for the first quarter after these adjustments.

I did mention the fact that Sirona had a very strong margin. We only consolidated one month of Sirona, pronounced a little bit the benefit of the merger; so that also helped the gross profit margins. They were probably a tad higher in this reporting than they would have been on the complete month. I also said this on the remarks to operating margins.

And the other thing to think about is the exchange rates. We are now at \$1.14. The first quarter was a little bit lower, so that will hurt our gross profit margins, especially on the Technology segment: literally almost all of our manufacturing is euros, Swiss franc, or Swedish krona based, right? So for the full year I would expect them to be quite a bit lower than the 60% we saw in Q1. Again, due to FX and due to the fact that we will not always only have the best month of the quarter in the numbers.

Vik Chopra - UBS - Analyst

Okay. That's very helpful. Thanks. Just one more if I could. Can you give us a sense of some of the areas that you're monitoring that could potentially put you at either the bottom or the top end of your guidance, beyond what you've seen in a very strong first quarter? Thank you.

Jeffrey Slovin - DENTSPLY SIRONA Inc. - CEO

I think the way to think about it is the markets continue to hold up. We continue to see that our early wins on our revenue synergies accelerate faster than we had expected.

We certainly have some tough comps ahead of us in Q2, in Q3. So how we are able to execute in those quarters will have a lot to do with the ability to go beyond. But of course, as we were just talking about, the impact from sales and margin mix will play a big role in that.

Vik Chopra - UBS - Analyst

Great. Thanks a lot.



Operator

Jon Block, Stifel.

Jon Block - *Stifel Nicolaus & Company - Analyst*

Great. Thanks, guys, and good morning. Maybe, Jeff, just the first one for you. The balance sheet is obviously very strong. You completed the \$500 million share repo. I think you're still only in and around 1 times levered debt-to-EBITDA.

So just maybe at a high level, if you can talk about the Company's ability to do acquisitions, even small ones, over the next 12 months or so. I'm asking more from the capabilities around an integration standpoint obviously, more so than financial.

Jeffrey Slovin - *DENTSPLY SIRONA Inc. - CEO*

Right; okay. First of all, let me tell you one of the truly gems of DENTSPLY SIRONA is our business development team. We have exceptionally capable people there that can process and digest a lot.

The fact that we've been working at the global efficiency and now have a formalized integration office to deal with this puts us in better stead. We know which countries are the most stable, and ones that might be a little bit longer away to contemplate an M&A position there.

But by and large, I will tell you that our strategic plan is all about continuing to do acquisitions. It's day 67, and I can tell you we are right up to speed on what the possibilities are to go out there.

Of course, when you're in the midst of this type of transformational merger, you do take into consideration your ability to integrate and how quickly we'd be able to do it. So that's all part and parcel for that.

But from the standpoint of myself, the management team, and the Board, we believe we've got a lot of room that can grow through acquisition.

Jon Block - *Stifel Nicolaus & Company - Analyst*

Perfect; very helpful. Then just one more quick one for you, Uli. It looks like -- I don't believe the \$2.70 to \$2.80, I don't think that assumes much more in the way of share count -- excuse me, share repos done this year.

Can you just talk about that a little bit? If you guys go ahead and do incremental share repurchases should we view that as marginal upside to the \$2.70 to \$2.80? Thanks, guys.

Uli Michel - *DENTSPLY SIRONA Inc. - EVP, CFO*

Yes, I think we told you that our guidance is based on a share count range of 220 million to 225 million. As we leave Q1, and if our share price doesn't change anymore -- because you know this has an impact of the dilutive part of the options -- we would end up the year about in the middle of what we told you, around 223 million.

We gave you the range because we still have an authorization left. We have about 3.6 million left on our buyback authorization. We do intend to execute on this.

Timing depends on the availability of our cash flow and our other plans. So it does include the possibility that we buy back a bit more in the course of the year.

Jon Block - *Stifel Nicolaus & Company - Analyst*

Thanks for your time.

Operator

Steve Beuchaw, Morgan Stanley.

Steve Beuchaw - *Morgan Stanley - Analyst*

Hi, good morning; nice to have the gang back together here. First question is on synergies. Jeff, you reiterated the \$125 million by year three that you laid out with Bret in the call last September. It would be helpful just to hear at a high level how you're thinking around the \$125 million is evolving; and then how you think about the pacing.

You mentioned in a prior comment that you see the sales piece of that as a little bit more back-half-loaded. Could you comment on the cost piece of that as well?

Jeffrey Slovin - *DENTSPLY SIRONA Inc. - CEO*

Yes. I would say that we've already started on some of the costs. Cost is easier to identify, and you can go at it a little bit quicker. Certain corporate costs we've evaluated and come after: insurance, audit fees.

The other thing is when you're doing country consolidations, there are overlaps with regard to software and duplication in functionality and functions.

And certainly also from a sourcing perspective. You know we're at that; there are some quick wins that we've been able to talk about.

But equally, I think we've spent a lot of time with our team. In a moment I'm going to have Chris talk to you a little bit about that because he's been leading the way with revenue synergies, and we're really pleased to see how well the teams have come together to collaborate.

Again, keep in mind, it's day 67. But the type of wins that we're talking about that make sense for the dental practitioner, for our distribution partners, for DENTSPLY SIRONA are really coming up.

From a perspective of the three-year, the \$125 million, again we're not backing away from that. We're very confident about it. But to give more color at this time about what will map in as far as year two and year three, I don't think we're -- well, I know we're not going to talk about that today, Steve.

But we tried in my prepared remarks to really give you a lot of things that we're working on that will have a big impact. Chris?

Chris Clark - *DENTSPLY SIRONA Inc. - President & COO Technologies*

Yes. I guess, Steve, I would characterize it as follows. As I mentioned on the implants discussion that there's a lot of energy here, and that's through true, frankly, for all of the different work streams that we have going. And these are numerous.

You should think about the work streams really being both within the two segments and then across the two segments as well. You should think about them being focused on product synergies; again being probably more -- think of that a little bit more innovation-based or R&D-based.

There are some that are probably intermediate-term, some longer-term. But again those are probably going to be on the tail end, if you will or at least the back half of the three-year period. Some may be a little bit before then.

And a lot of energy going there. Again when we get our scientists together, when we get our marketers together and really think about the possibilities in terms of combined solutions.

On the other hand then, in the nearer term, on the commercial synergies think about again our sales and marketers getting together and talking about programmatically what can we do to drive more value with our customers together. Again you can think about that in terms of promotions, in terms of how we present ourselves to our customers, in terms of, as I mentioned earlier, KOLs, clinical education, etc..

So again, there is a lot of energy. Many, many work streams here. But again we're excited about how our people are engaging, and I think that bodes well for the trajectory and where we head, frankly, not just this year but over the three-year period and beyond.

Jeffrey Slovin - *DENTSPLY SIRONA Inc. - CEO*

Again, digital dentistry, clinical education -- if you just, Steve, you think about how many trainings and educations we do where we never had any of our products also in the room, when you're doing a training on ortho, implant, endo, where that can play in. And it works both ways.

Certainly nobody has done better than DENTSPLY SIRONA in clinical education, and that is valued highly by the dental professional.

Steve Beuchaw - *Morgan Stanley - Analyst*

Got it; thanks for all that color. Just one follow-up, actually to a comment that you made earlier, Jeff. The language you used was something to the effect of our corporate strategy is all about M&A.

I can't say it's a terribly surprising comment. But it would help, given that comment and context, to hear how you and the rest of the Board think about your priorities and commitments around M&A. How do you think about the returns that you would require, and what sort of strategic imperatives are you really trying to address there on the Street? Thank you.

Jeffrey Slovin - *DENTSPLY SIRONA Inc. - CEO*

Yes, I mean, look, certainly from a standpoint of the bigger picture, what we look at, we are, first and foremost, an innovator, right? So technology matters.

So we're out there; we're looking at businesses that maybe need a larger company infrastructure. They've got something that they're either just finished with or they need more resources to finish. That's something that's very important, something both companies have done extremely well.

And then we take a look at -- what can we add to our SBUs? What would be an additional add-on that would help growth or the adoption of the technology, or sell more of the Consumables certainly?

And let's not forget the regional play, which is why I said we have to look at each country and the stability level there.

Certainly, again, we look for the acquisition to be accretive. If it's not going to be accretive, we've got to be able to explain to you very quickly why this will get there in a fast enough form that is necessary.

ROIC has always been something that is significant to us, and hasn't changed. I think we have a very robust process internally that we go through.

Frankly, I wanted to highlight it earlier, because I think the team's truly extraordinary. That was something that I can tell you from a standpoint at Sirona, we were good; DENTSPLY is great. So coming together on that makes a big difference.

Also, we've been able to have discussions with our Board about that. We recognize that capital allocation is a critical component. And we think that we're one of the few companies that can be a true consolidator in this industry, and so there is a lot of room for that to take place over the years to come.

As you know, like anything, you have to be ready to seize the opportunity when it becomes available. I think that's the point that we want to stress.

Yes, we have to integrate. Yes, we understand that's priority. And our 15,000 know our first and foremost is to them and to our shareholders and stakeholders to make sure our nucleus is strong.

But after that we just see plenty of opportunities. Now, we're going to stay disciplined. That doesn't change. But that's part of our roadmap, and I want to be crystal clear about that.

Steve Beuchaw - *Morgan Stanley - Analyst*

Thanks so much, guys.

Operator

Tycho Peterson, JPMorgan.

Tycho Peterson - *JPMorgan - Analyst*

Hey, thanks. I want to go back to one of the questions earlier on CAD/CAM. I understand you guys don't want to give numbers for the quarter. But I'm wondering if you could just talk a little bit about underlying market growth for that market.

You've got a number of dynamics here, with the zirconia workflow and obviously some new competitors. So can you maybe just talk about how you see the growth trajectory for CAD/CAM for the next couple years?

Jeffrey Slovin - *DENTSPLY SIRONA Inc. - CEO*

Hi, Tycho; nice to hear from you. Yes, I mean, look, we did give color that CAD/CAM led Technology, grew faster than the overall Technology. And that's because single-visits dentistry is here to stay.

You're hearing it more and more. In ortho, it's growing the fastest I would say around the globe.

You won't hear from the dental community or distribution a disagreement about chairside becoming the standard of care. We've heard more about digital impression only; but that's typically in ortho.

And of course, our zirconia is really a game-changer. When you think about this material and the strength of it, and also the aesthetics and how it compares to others, typically zirconia has been something that you would only do through the lab. Of course, our Cercon ht is a product that we're excited about that we'll deliver through the lab as well.

But from a chairside perspective, you never considered it because it took two hours to sinter. Now with the SpeedFire it's 15 minutes.

Why is this so significant? Because zirconia is a terrific material for molars and certain bridges, and actually very popular amongst dentists.

So to be able to have this type of ceramic be available chairside just truly opens up our addressable market. And by addressable market, we're not talking about adding 2,000, 3,000 more dentists who are interested. We're talking about tens of thousands of dentists that will now take a look at this opportunity, where they wouldn't have before.

So we believe that's just another reason why CEREC makes sense. But the other thing, frankly, is the fact that now everybody is talking about not just restorative but we're talking about what you can do with CEREC on an implant and ortho side.

I have to say that we were at the AAO, and in a second I'm going to ask Chris to tell you about that flavor, but you just see the appetite for digital impression and what the possibilities are for all types of applications. I think that was a bit of the story at the AAO.

Chris Clark - DENTSPLY SIRONA Inc. - President & COO Technologies

Absolutely, Jeff. There's no doubt that a lot of energy regarding digital at the orthodontics show.

Obviously we're there and well positioned with the Omnicam, and again I think that as we look at the synergies of these companies coming together there's no doubt that, similar to implants, ortho is really one of the key fulcrums and one of the key opportunities.

So we're excited about that. I think that we're well positioned for where this market is headed. And again I think that really, as we move forward, I would expect that to be one of the key synergies.

Jeffrey Slovin - DENTSPLY SIRONA Inc. - CEO

I mean it's a beautiful thing that, the ortho to be the most open and also to have a ClearAligner in our MTM for the anterior, which is exciting for us.

Tycho Peterson - JPMorgan - Analyst

Great. I'll leave it at that. Thank you.

Operator

There are no further telephone questions at this time. I'd like to turn the conference back over to management for any additional or closing remarks.

Jeffrey Slovin - DENTSPLY SIRONA Inc. - CEO

Thank you very much for joining us on our first-ever first-quarter conference call as DENTSPLY SIRONA. Very excited what we have ahead of us. Our 15,000 strong are ready to go and have another strong quarter in Q2.

So I look forward to joining you in August to discuss our second-quarter results. Thank you and have a great weekend.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.



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