

FINAL TRANSCRIPT

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XRAY - Q4 2010 DENTSPLY International Inc. Earnings Conference Call

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Feb. 09. 2011 / 1:30PM, XRAY - Q4 2010 DENTSPLY International Inc. Earnings Conference Call

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PRESENTATION

Operator

Good day, everyone, and welcome to today's DENTSPLY International 2010 fourth quarter and year-end earnings conference call. Today's call is being recorded. At this time, I would like to turn the conference over to Mr. Bret Wise. Please go ahead, sir.

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

Thank you, Clay, and good morning, everyone. Thank you for joining us on our year-end conference call. This is Bret Wise, Chairman and CEO. And also with us today are Chris Clark, our President and COO; and Bill Jellison, our Senior Vice President and CFO. On today's call each of us will have some prepared remarks and following those remarks we'll be glad to answer any questions you may have.

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



Feb. 09. 2011 / 1:30PM, XRAY - Q4 2010 DENTSPLY International Inc. Earnings Conference Call

This morning we're pleased to announce record performance for the fourth quarter and the full year 2010. For the fourth quarter, sales XPM were up 0.3%, with constant currency growth of 2.5%, and negative currency headwinds of 2.2%. The constant currency growth was comprised of 1.7% internal growth and 0.8% growth from acquisitions. I think it's important to note when you look at the internal growth for the quarter, that in the third quarter conference call we commented that we thought the price increase pre-buy, ahead of our October 1 price increase, has probably moved a half a point, Out of the fourth quarter and into the third quarter, and on this call we can confirm it was probably half a point or maybe just above that.

This quarter caps a full year 2010 where we had sales growth XPM of 2.1%, with constant currency growth of 2.6%, and currency a negative of 0.5%. The constant currency growth for the full year was comprised of internal growth of 2.1%, and acquisition growth of 0.5%. Based on the market data we have available to us today, these results put us at, maybe, the high end of what we believe the global dental consumable market grew in 2010. We'd say the feel of the market is better today than when we entered 2010 and is showing signs of gradually accelerating. However, the market has not yet returned to the historical growth pattern that we saw before the recession.

The fourth quarter geographic internal growth XPM was plus 0.6% in the US, plus 1.0% in Europe, and plus 4.5% for rest of world. In the quarter, there was a notable improvement in the US. We also benefited from positive internal growth in consumables, and the specialities, and our non-dental segment, while lab was slightly negative. For the full year, internal growth was plus 0.1% or just above -- just barely positive in the US, plus 2.9% in Europe, and plus 4.1% for the rest of world. Internal growth for the full year kind of mirrored the pattern that I just described for the fourth quarter with positive internal growth in consumables, specialities and non-dental, and a slight decline in prosthetics.

Earnings for the fourth quarter were helped by gross margins that improved 70 basis points versus the prior year. That is measured on a sales XPM basis. While SG&A was higher as a percent of sales this quarter, the performance is actually better than it may appear from this raw comparison, as it was one of our best quarters over the past ten to 12 quarters. However, we were coming up against a very low SG&A comparison from the last quarter of last year where expenses were very low. In fact, that was one of the lowest ratios that we'd had on record in the past decade.

We signaled this throughout the year starting with our call in February 2010 that the comparison in the back half of the year on SG&A would be difficult. And, in fact, that's what we see emerging here. Probably a more meaningful comparison might be expenses sequentially which were 100 basis points lower than the third quarter of 2010, and 60 basis points lower than the full-year average for 2010. Overall on a non-GAAP EPS basis, we reported a record \$0.51 a share for the fourth quarter. That's a 6.3% improvement over the prior year, which was also a record.

For the full year, non-GAAP EPS was \$1.90. Again, that's also a record. And, that compares to \$1.84 in 2010 (sic - see Press Release), a 3.3% improvement. During 2010, we completed seven business development transactions, composed of primarily traditional acquisitions but also investments in new technologies and minority investments. In the last quarter of the year, we completed two transactions including a minority investment in DIO in South Korea which is a low-cost implant producer focused primarily on the emerging markets.

In addition, we entered into a strategic relationship with GlaxoSmithKline regarding dual branding and development of products to address tooth sensitivity in the professional market. That's in combination with their leading Sensodyne brand that's sold over the counter. Lastly, we also signed two additional transactions near the end of the year, one of which closed in January. I'd say these are small investments and no need to adjust your models for these, at this point. I would say that M&A remains our top priority for cash deployment.

We have a number of possibilities we're working on but it's too early to give any guidance on timing or magnitude of those transactions at this time. We believe the global dental market has returned to pre-recession levels in absolute amounts although it's not growing at the pre-recession rate. We see some very positive signs emerging in certain countries with some improvement in the US, select developed markets in Europe and many parts of the developing world where we see acceleration of activity. Looking ahead, we have a wave of new products coming to market, many as we speak. We look forward to the opportunity to



Feb. 09. 2011 / 1:30PM, XRAY - Q4 2010 DENTSPLY International Inc. Earnings Conference Call

show and hit the market with these products. First at the Chicago Midwinter show in late February, and then at the International Dental Show in Cologne, Germany in late March. And Chris will describe these products more in his prepared remarks this morning.

We're expecting continued slow improvement in the market in 2011 and believe we should be able to perform better than the global consumables market, in part due to this pipeline of new products we have coming to market here early in the year. As we look towards performance in 2011 we expect internal growth to continue to accelerate off the 2010 rate, although we probably will not be able to return to strong mid-single-digit growth at this stage.

In addition, subject to some stability in currency rates, which have been quite volatile throughout the year, we expect non-GAAP EPS to improve 5% to 10% next year, putting us in the \$2 to \$2.08 range which was also disclosed in our press release this morning. That completes my prepared remarks. I'd like to now turn the call over to Chris.

Christopher/Chris Clark - DENTSPLY International Inc. - President, COO

Thank you, Bret. Good morning, everyone. On the new product front, innovation continues to be a key growth strategy for us. We entered 2011 with a strong new product pipeline including several key initiatives across different franchises that should provide significant new product news and momentum, as we move through the year.

I'd like to take the next few minutes and provide some additional perspective on a couple of these new products that we're introducing early this year. As well as some insights on the exciting partnership with GlaxoSmithKline for our preventive business that Bret mentioned earlier. Starting with the restorative franchise, this quarter we're launching the new ChemFil Rock advanced glass ionomer restorative. This unique patented formulation provides superior mechanical properties and a simplified placement process. Both of which are important for glass ionomers which are often used in clinical situations that need speed of care or lower cost care, such as in young children, geriatric patients and emergency cases.

ChemFil Rock utilizes advanced chemistry that delivers higher strength and improved fracture toughness over leading brands in the market today and comes in a convenient delivery capsule to facilitate clinical placement. The clinical technique with this product has been simplified with a fewer number of steps compared to key competitive options including the lack of needing a cavity varnish or final coating on the restoration. Unlike most other products we introduce in the restorative area, this entrant into the glass ionomer category represents little cannibalization risk for us. We're real excited about the market potential both in the US as well as in Europe.

In the endodontic area, we will be launching our latest unique file and motor combination later this quarter in Europe and, likely, by early in the second quarter in the US. This system is truly unique and offers a range of benefits to the clinician. Its patented reciprocating movement reduces the potential for file separation or breakage as the file has less stress on it during the root canal procedure. In addition, the clinical technique is simpler. The unique motion and innovative design make it possible to shape most canals with just one instrument or file compared to three or four that are required to clean and shape a canal today.

This means no time is wasted for the clinician changing instruments which reduces the amount of time it takes to shape the canal by up to 40%. We will be marketing the system utilizing two different designs under the brand names WaveOne and RECIPROC. And we're real excited about the innovation and really believe that this represents the next generation in endodontic systems.

We have several other key new products coming to market as we move through the year. And I'll look to provide some additional insights on some of our significant innovation efforts on subsequent quarterly calls. I'd like to also touch briefly this morning on our recently announced collaboration with GlaxoSmithKline. This agreement involves co-branding of products containing NovaMin, which is a patent-protected calcium phosphate technology that's been proven to relieve tooth sensitivity. By combining



Feb. 09. 2011 / 1:30PM, XRAY - Q4 2010 DENTSPLY International Inc. Earnings Conference Call

DENTSPLY's NUPRO products, which contain the NovaMin technology with GSK's Sensodyne brand, we'll be providing a complete treatment solution of both in-office and at-home care regimens for patients suffering from dentin hypersensitivity, which affects a significant portion of the population today.

The co-branding effort will initially result in NUPRO Sensodyne Professional prophylactic paste and, also, in Sensodyne NUPRO Professional 5000 parts per million fluoride toothpaste. These products will be launched in the US later this month during the Chicago Midwinter Meeting, and in Europe at the upcoming IDS Show in Cologne, Germany in late March. We're very excited about the collaboration with GSK and look forward to the market impact of the combination of two very strong brand names, as well as the additional awareness and interest in NovaMin that will be generated as a result. I'd now like to turn the call over to Bill Jellison, who will cover the financial results for the quarter and the year in greater detail.

William/Bill Jellison - DENTSPLY International Inc. - CFO, SVP

Good morning, everyone. As Bret noted, net sales for the fourth quarter of 2010 were flat with the fourth quarter of 2009 and net sales excluding precious metal content increased 0.3% in the quarter, with internal growth a positive 1.7%. Net sales for the full year were \$2.2 billion, an increase of 2.9% over last year, while net sales ex. precious metals were \$2 billion, an increase of 2.1% for the year.

The 2010 geographic mix of sales without precious metal content was as follows. The US represents 37% of our total sales, Europe was 40%, and the rest of the world was 23%. Gross margins for the fourth quarter were 55.2% of sales ex. precious metals, or an increase of 0.7 percentage points compared to the fourth quarter of 2009. Gross margins were positively impacted this quarter from price increases which were somewhat offset by both FX impacts and product mix, as we went up against easier comps in last year's fourth quarter.

Full-year gross margins were flat with last year at 55.6% of sales ex. precious metals content. And the price increases for the year were offset by FX impacts and intra product line mix in a few areas. SG&A expenses were \$186.4 million or 35.8% of sales, ex. precious metals in the fourth quarter of 2010, versus 34.4% in the fourth quarter of 2009. SG&A expenses were up against a very tough comparison against last year in the quarter. However, as a percent of sales, they showed sequential improvement of a full percentage point.

These expenses increased as new investments were made in certain businesses over the last year to support future growth and also upcoming new product launches. Total year SG&A was \$738.9 million or 36.4% of sales ex. precious metals in 2010 versus 36.1% in 2009. Operating margins were 16.8% in the fourth quarter of 2010. Operating margins were 18.3% on sales ex. precious metals in the fourth quarter. Operating margins ex. precious metals on a non-GAAP basis, though, excluding restructuring, acquisition related costs and other charges in both periods were 19.5% for the fourth quarter of 2010 compared to 20.1% in the fourth quarter last year.

Full-year operating margins were 18.7% on sales ex. precious metals in 2010 and 19.2% in 2009. Operating margins on sales ex. precious metals on a non-GAAP basis excluding restructuring, acquisition related costs and other charges were 19.4% in 2010 compared to 19.7% last year. Net interest and other expense in the fourth quarter was \$4.8 million or \$0.8 million higher than last year's fourth quarter. Interest expense was about \$1 million higher in the quarter than last year and net interest and other expense for the full year was \$22.6 million or an expense increase of \$4.7 million for the year. Net interest expense was \$20.8 million in 2010 compared to net interest expense of \$16.9 million in 2009, or an increase of \$3.9 million.

The low interest rates on invested cash and our investments in acquisitions and stock repurchases caused net interest expense to increase during the year. The impact of foreign exchange transaction losses and other items in 2010 was an expense of \$1.8 million versus an expense of \$1 million in 2009, or an expense increase of \$0.8 million. The tax rate for the fourth quarter was 23.9% compared to 23.5% in the fourth quarter of 2009. However, the operational tax rates in these periods were 23.4% in the



Feb. 09. 2011 / 1:30PM, XRAY - Q4 2010 DENTSPLY International Inc. Earnings Conference Call

fourth quarter of 2010, and 26.9% in the fourth quarter of 2009. The 2010 full year tax rate of 24.9% included an operational rate of 24.8% compared to the 26.1% in 2009.

Equity and net loss attributable to unconsolidated affiliated Company is a new line and reflects our investment in DIO. The loss shown is solely the result of the increased market value of the convertible bond as their stock price has increased since our investment announcement. This bond gets mark to market and the change in value runs through their P&L on a quarterly basis. 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 but is run through OCI until we convert, at which time it will run through our P&L but will also be treated as a non-GAAP adjustment.

To better understand and follow some of the following comments, you can look at the tables included in our recent press release which reconciles performance from US Generally Accepted Accounting Principles, or GAAP, to unadjusted non-GAAP performance. Net income attributable to DENTSPLY International for the fourth quarter of 2010 was \$67.8 million, or \$0.47 per diluted share, compared to \$74.8 million or \$0.50 per diluted share in the fourth quarter of 2009. On an adjusted basis, earnings excluding restructuring, acquisition related costs and other related items and tax adjustments in both periods which constitute a non-GAAP measure were \$73.7 million or \$0.51 per diluted share in the fourth quarter of 2010, compared to \$72.6 million or \$0.48 per diluted share in the fourth quarter of 2009, a 6.3% increase in diluted earnings per share.

Net income attributable to DENTSPLY International in 2010 for the full year was \$265.7 million or \$1.82 per diluted share. Net income for 2009 was \$274.3 million or \$1.83 per diluted share. Net income for comparability analysis on a non-GAAP basis, excluding the reconciling items in the press release for the years ending 2010 and 2009, were \$277.9 million, and \$275.7 million respectively. This represents earnings of \$1.90 per diluted share for 2010, compared to \$1.84 in 2009, an increase of 3.3% for the year.

In looking at cash flow and some balance sheet items, our operating cash flow was \$362 million for the year. Capital expenditures were \$44 million for the year with depreciation and amortization for the year totaling \$67 million. Inventory days ended the year at 100 for 2010, and that compares to the 99 days at the end of last year or at the end of 2009. Receivable days ended 2010 at 54 days compared to 59 days at the end of the third quarter of 2010, and 55 days at the end of 2009. We're pleased with the improvement in both collection efforts and improved liquidity that we're seeing from our customers which have helped us to make some progress again in this area.

The balance sheet remains very strong even with our acquisitions and stock repurchases. The year ended with \$540 million in cash and short-term investments with total debt of \$612 million at the end of 2010. DENTSPLY repurchased 6.7 million shares for \$224 million in 2010. Based on the Company's authorization to maintain up to 22 million shares of Treasury Stock, we still have approximately 1 million shares available for repurchase. We continue to monitor both the market's liquidity and our investment needs in making these decisions.

Economic news continues to impact currency volatility, however, in 2011. Currency translation impacts at current foreign exchange rates should have a slightly positive sales and earnings impact on us for the year. We believe as global economic conditions continue to improve in 2011, the global dental market should also be able to show some additional improvement. As Bret stated, our guidance for earnings in 2011 is in the range of \$2 to \$2.08 per diluted share. This excludes restructuring and other costs, acquisition related expenses and income tax related adjustments. We are confident in our market position and will work to achieve above market growth in our markets as we continue to make investments to support our business in 2011 and beyond. That concludes our prepared remarks and we would be glad to answer any questions that you may have at this time.



Feb. 09. 2011 / 1:30PM, XRAY - Q4 2010 DENTSPLY International Inc. Earnings Conference Call

QUESTIONS AND ANSWERS

Operator

Thank you. The question-and-answer session today will be conducted electronically.

(Operator Instructions).

We'll pause for just a moment to assemble the queue. We'll go first to Glen Santangelo with Credit Suisse.

Glen Santangelo - Credit Suisse - Analyst

Yes. Thanks for taking my question. Hello, Bret, I just wanted to follow up with you regarding some of the comments you were making about market growth. It looks like in 2010 you had about 2% to 3% of constant currency growth and if I sort of back out acquisitions and I back out some of your price increases, I'm trying to get a sense for where you think market growth for consumables is right now in US and Europe? Because you suggested that you're at the upper end of that band, so is it fair to think that the growth rate in US and Europe is pretty much right around zero?

Bret Wise - DENTSPLY International Inc. - Chairman, CEO

Well, Glen, thank you, Glen, and I think the data points we have thus far, of course, are competitor announcements, some of the industry survey data that we get and, of course, we've seen announcements from distributors throughout the year, and I think all that data kind of confirms that the global dental consumable market probably grew in the 0% to 2% range in 2010. We were just right at the high end of that, 2.1%, I think.

For the fourth quarter, we've seen very limited disclosures so far. We've got a couple disclosures that come up over the next 45 days from the distributors which will be good data points but, at this point, I would say that the global dental consumable dental market is growing. It's growing low-single-digits, probably not more than that but it's certainly in the positive territory.

Glen Santangelo - Credit Suisse - Analyst

Okay. So, just a follow-up to that. Embedded in your outlook, then, in your prepared remarks you sort of suggested you expect 2011 to be a little bit better than that. So, if I start with, let's call it, maybe 3% organic growth, we're looking for roughly 7% EPS growth at the midpoint of your guidance and so that really don't give us much margin expansion. Do you anticipate anything going on with the margins or now that you're building up a sizable cash position, what do you anticipate doing with that cash? Is it more acquisitions or could there be something more aggressive on the share repurchase front? I'm just trying to figure out the rest of the income statement, now, below the revenue line.

Bret Wise - DENTSPLY International Inc. - Chairman, CEO

Thanks, Glen. Our policy on the guidance is that we take into account any share authorizations that we have available today but not additional share authorizations in the guidance. Our priorities for cash deployment are reinvestment in the Company and new technologies, et cetera, first, business development activity, second, to the extent that we can execute on those, and third, share repurchases and, fourth, dividends and growth of the dividends. And, I think those priorities remain in place.

To the extent that we -- to the extent in past years where we haven't been able to execute acquisitions, we've been more aggressive on share repurchases. I think that policy's probably still in place although I don't think you can count on share repurchase beyond the current authorization. But, the priorities for share repurchases remain in place. We do think the dental market will accelerate a little bit in 2011. We think that interest rates will probably move up a little bit in 2011. We're sitting on

Feb. 09. 2011 / 1:30PM, XRAY - Q4 2010 DENTSPLY International Inc. Earnings Conference Call

\$540 million of cash that's earning virtually nothing right now or a very low rate of return and, if possible, of course, we would like to deploy that cash in more productive ways.

Glen Santangelo - *Credit Suisse - Analyst*

Okay. Thanks a lot.

Operator

We'll go next to Derek Leckow with Barrington Research.

Derek Leckow - *Barrington Research Associates, Inc. - Analyst*

Yes, thank you. Good morning.

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

Hello, Derek.

Derek Leckow - *Barrington Research Associates, Inc. - Analyst*

You answered a couple of my questions in the previous answers, but I'm also struggling with the internal growth rate questions and trying to figure out -- this Company, in normal times, used to grow in the 5% to 7% range and I think we're headed back to that based on everything that I'm seeing. And, I'm just wondering, are you guys just trying to be extra conservative here because the comparisons don't look all that tough and I'm trying to figure out why we can't grow faster internally?

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

Well, Derek, I think in part with our market share we would need to see the market pick up to the old rates of 4% to 5%. I haven't heard anyone say that that's likely in 2011. Not any of our large distributor partners, not any of our competitors. We do think that the dental consumable market will accelerate, some off the rate it had in 2010, but I think it's unrealistic to expect at this point that dental consumable growth will return to kind of the 2006, 2007 rates in 2011. I think it's going to be a more gradual acceleration off of 2010 base.

Derek Leckow - *Barrington Research Associates, Inc. - Analyst*

Okay. If we just took a look at the chair-side consumables business, which category would you say is the weakest right now? There must be some categories that are negative, then, and just trying to gather which of those categories are the weakest and which are the strongest?

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

Well, that's a huge category with many different products in it. I would say on a relative basis that the restoratives, the chemical-based products are stronger today than the small equipment. But, I don't have a lot more guidance for you than that.

Feb. 09. 2011 / 1:30PM, XRAY - Q4 2010 DENTSPLY International Inc. Earnings Conference Call

Derek Leckow - *Barrington Research Associates, Inc. - Analyst*

So, a lot of the aesthetic products were the ones that were the weakest I think, going back a year or so. Have those recovered?

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

In the fourth quarter, they had not fully recovered, primarily because there was a large restocking in the baseline for that product when we came off of a very substantial back order position.

Derek Leckow - *Barrington Research Associates, Inc. - Analyst*

Okay.

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

But, the market volume, meaning the sell-out volumes in those products are actually picking up, have picked up a bit.

Derek Leckow - *Barrington Research Associates, Inc. - Analyst*

So, you're seeing out-the-door volumes because you get that data from your distributors in the US, you're seeing that grow right now, is that right?

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

Out-the-door volumes are growing, yes.

Derek Leckow - *Barrington Research Associates, Inc. - Analyst*

Okay, good. And, on the 23% of the business that's in those emerging markets where we anticipate much stronger growth in those markets for a long period of time due to the under penetration of dental, what are you seeing there? Are those markets still also weak? Are we seeing some of the chair-side consumables businesses there pick up?

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

Just a point of correction on one of your comments. You stated that it's 23% in the emerging markets. Keep in mind that that's rest of world category for us. If you looked at just the emerging markets, actually, we've grown nicely there and emerging markets now probably represent almost 16% of our total sales where, in the past, it's been more like in the 13%, 14%. But, those markets have obviously helped the growth rates that have been shown in the rest of the world growth that we talk about.

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

Yes, we had 4.5% organic growth in the rest of world category, about half of that is emerging markets and the emerging markets are above that rate, whereas the developed markets are below that rate.

Feb. 09. 2011 / 1:30PM, XRAY - Q4 2010 DENTSPLY International Inc. Earnings Conference Call

Derek Leckow - *Barrington Research Associates, Inc. - Analyst*

Okay, got it. So, the 16%, the delta there is probably Japan, is that right?

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

That's one.

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

Japan, Canada, Australia are all in that number, as well.

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

But, Japan is certainly one of the slowest growing markets. In fact, it's a contracting market in 2010, at least it was a contracting market.

Derek Leckow - *Barrington Research Associates, Inc. - Analyst*

Okay. And, then, just if I could ask a question on the acquisitions that you made here or the business development activities. Bill, or Bret, is there a strategy here? Are you heading in one direction with these acquisitions or are these just a lot of different bifurcated acquisitions that have to do with various new products, et cetera?

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

No, there are strategies behind these. There's strategies for each of our franchised businesses, of which we have six.

Derek Leckow - *Barrington Research Associates, Inc. - Analyst*

Okay.

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

And, I think what you've seen is furtherance of the strategies that are developed specifically for those different businesses. For instance, we have some businesses that are sold direct in the United States but largely through distribution outside the United States. And, we've been acquiring some of those sales and marketing organizations so we can go direct with those products that are more technique sensitive.

Derek Leckow - *Barrington Research Associates, Inc. - Analyst*

And, so, you said right now they're not material on an income statement basis, but what about the outcome of these acquisitions or these activities? When do we start to see maybe the payoff of some of these investments?

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

Well, if you went back to the ones we did three or four years ago, we're seeing the payoff of those now.



Feb. 09. 2011 / 1:30PM, XRAY - Q4 2010 DENTSPLY International Inc. Earnings Conference Call

Derek Leckow - *Barrington Research Associates, Inc. - Analyst*

Okay.

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

So, I think this is a continual stream and if you kind of look at our acquisition activity, each year you'll see us do a number of these smaller transactions. Of course, we'd like to complement that with a larger transaction but the last large transaction we did now was about 14 months ago.

Derek Leckow - *Barrington Research Associates, Inc. - Analyst*

Okay.

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

We'd like to execute on more of those but those are -- the timing -- there's significant timing risk with respect to those.

Derek Leckow - *Barrington Research Associates, Inc. - Analyst*

Okay. And, then, just to clarify one other thing on the guidance, the sort of 7% midpoint of the range on EPS growth, that's purely internal, isn't that right?

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

That does not take into account acquisitions we have not announced, nor does it take into account share repurchase beyond what we have authorized.

Derek Leckow - *Barrington Research Associates, Inc. - Analyst*

Okay. Very good. Thanks very much.

Operator

We'll go next to Brandon Couillard with Jefferies.

Brandon Couillard - *Jefferies & Co. - Analyst*

Thanks. Bill, how should we think about operating cash flow and CapEx in 2011?

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

Well, I think from an operating cash flow perspective, we would expect that it would improve slightly in 2011. I think the CapEx side of the equation is probably going to begin moving back toward a more normal level. So prior to kind of the recessionary

Feb. 09. 2011 / 1:30PM, XRAY - Q4 2010 DENTSPLY International Inc. Earnings Conference Call

positions we were running in the \$65 million, \$70 million range. I think that that's probably more of a realistic expectation for 2011 than the \$44 million that you saw in 2010.

Brandon Couillard - *Jefferies & Co. - Analyst*

Okay. And, then, Bill, or Bret, one of your largest competitors in consumables recently pointed to a step-up in its R&D commitment. I'm just curious if you witnessed any material changes in the competitive environment and, as a corollary, how should we think about R&D spending plans for next year?

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

Well, our strategy, when we went into the recession, was not to cut our R&D spend so we held it constant. We took that off the table. We weren't going to look for cost reductions in that area. And, I think that's why we've kind of got this large pipeline of products that are going to come to market in 2011. So, we're continuing to spend on R&D as a priority.

I think our competitors have always spent a lot on R&D. I think some of our larger competitors are very innovative companies, and we think we're a pretty innovative Company as well. So, I haven't seen any change in the market dynamics with respect to one company or another company accelerating R&D. We've kind of stuck to our strategy which was to hold it throughout the recession and then begin to grow it and budget allocations coming out of the recession.

Brandon Couillard - *Jefferies & Co. - Analyst*

Okay. Thanks. And, then, Bill, what was the impact of FX on the operating margins and EPS in the quarter?

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

Operating -- the EPS impact associated with the FX is probably about a \$0.015 negative in the fourth quarter and it was probably close to \$0.02 per share negative for the full year.

Brandon Couillard - *Jefferies & Co. - Analyst*

Great. Thank you.

Operator

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

Larry Marsh - *Barclays Capital - Analyst*

Thanks. Good morning, Bret, Chris, and Bill. Let me just follow up on a couple things, if I could, and to the extent you could talk about it. So, just to maybe beat on this internal growth drum a bit more, you're talking about 0% to 2% global dental consumables growth as you see it, the marketplace. Can you elaborate, how are you thinking of that US, Europe and rest of the world as you define it, either as you're seeing it now or how you're thinking about it for 2011?



Feb. 09. 2011 / 1:30PM, XRAY - Q4 2010 DENTSPLY International Inc. Earnings Conference Call

Bret Wise - DENTSPLY International Inc. - Chairman, CEO

Keep in mind that the 0% to 2% is what we think happened in 2010, not necessarily what will happen in 2011. I think, generally speaking, you're going to see growth accelerate in the US somewhat in 2011 over 2010. In Europe, I'm less confident that we'll see accelerated growth in 2011 versus 2010 because Europe actually had a reasonably good year in 2010 and, rest of the world, I think we're going to continue to see the emerging markets grow kind of probably high-single-digits for us.

And, the other developed countries in the rest of the world I think we've seen good growth in those, ex-Japan. And, whether the Japanese dental market will turn around and start to grow in 2011, I think, is a question mark in our minds still, at this point.

Larry Marsh - Barclays Capital - Analyst

As you say, the way you break out your divisions you're not going to see necessarily that emerging market number spring out because it gets somewhat dilutive because of Japan more than anything else?

Bret Wise - DENTSPLY International Inc. - Chairman, CEO

Yes. And, also a small piece of the emerging markets is in the European number which is the CIS. We have it in the Latin American countries in one segment, we've got Asia-Pacific in a separate segment, and then the CIS is in yet -- actually, it's in the same segment as Asia-Pacific.

Larry Marsh - Barclays Capital - Analyst

Just to follow up. Bret, I know you said to me and others that your business model really works well when you get a couple percent of internal growth, helps you leverage your fixed costs that you have globally. I guess the way you're thinking about 2011, you're not really going to see that kind of pick-up to most appropriately leverage your fixed cost. Is your view, let's stand steady so that by 2012 we're going to get that pick-up so that you start to get that nice margin expansion you've seen so much in the past?

Bret Wise - DENTSPLY International Inc. - Chairman, CEO

I think in 2011, obviously, throughout the last two years when the market was down, we weren't standing still. We were implementing cost reduction programs, things to try to expand margins when we came out of the recession. As we look to 2007 -- excuse me, 2011, we think we'll return to some margin expansion. We're not confident we would get back to the high end of kind of the range that we had seen pre-recession but we think with a little bit of organic growth we can get some margin expansion. Just probably won't be as robust as maybe we saw in the 2006, 2007 timeframe.

Larry Marsh - Barclays Capital - Analyst

And, then two other things. I know you and Chris have talked a lot about the pipeline of products. At Yankee Dental, we saw some of the products you discussed, the endo file, the NUPRO product line, ChemFil, so it seems really interesting. You've talked about other products. How do we think of that? How do we quantify how you're thinking of contribution here in 2011 relative to how it moves the needle in internal growth or other ways?

Feb. 09. 2011 / 1:30PM, XRAY - Q4 2010 DENTSPLY International Inc. Earnings Conference Call

Christopher/Chris Clark - DENTSPLY International Inc. - President, COO

Larry, it's Chris. I think, obviously, we're excited about those innovations. I think they are going to have an impact in the marketplace for us. A big, huge new product in dental would be a \$5 million product. And, from that angle, \$5 million on our overall base, we need several of those to move the needle in aggregate.

So, I think what you're going to see with that is, with that, we're excited about the innovations. I think that's factored into our guidance here. That's partially why we think we should be able to do a little better than what the market's going to do. And, again, we'll just have to see as the year unfolds. But, we're excited about the pipeline and the ones we've launched and the ones we've got coming.

Larry Marsh - Barclays Capital - Analyst

The message really is, relative to most years, the new product pipeline should give you a little bit more boost this year because the number of products you're introducing. Is that a fair way to look at it?

Christopher/Chris Clark - DENTSPLY International Inc. - President, COO

I'm optimistic of that, yes, absolutely.

Larry Marsh - Barclays Capital - Analyst

Yes. Two other things, then. You know, back the other drum to beat on acquisitions, again, you guys have had a great track record of adding businesses. I think, Bret, you've talked about building the farm team with other smaller companies, being able to add. You mentioned that last bigger acquisition you made was 14 months ago. For a number of reasons, timing, et cetera. If we'd have this conversation in 12 months and you hadn't done anything of any larger size, how disappointed would you be as a manager or would you just say look, timing is something we can't fully control?

Bret Wise - DENTSPLY International Inc. - Chairman, CEO

Well, I'd be disappointed but I probably would say timing is something we can't control. Also, acquisitions, we have some pretty disciplined metrics we use on acquisitions. We want to make sure they're going to add value to our portfolio. We're not doing them just to get bigger. We're reasonably selective and because of that timing becomes more of a risk, I think. But, I'll be disappointed if we don't have some pickup in acquisition activity in 2011.

Larry Marsh - Barclays Capital - Analyst

Just on timing, Bill, your normal IDS year you don't see that much variation. Usually, your second quarter is your strongest and such. This year is there any seasonality we should be aware of and remind us again what the tax rate we should be using for 2011?

William/Bill Jellison - DENTSPLY International Inc. - CFO, SVP

I mean, the IDS is something that happens every two years. That's not something that really kind of moves the needle in our overall performance or within a period. So, no, we don't -- quarter-to-quarter, as we move through the year, our sales levels are relatively tight from a volatility perspective. We may see some movement in some of the quarters but very minor.

Feb. 09. 2011 / 1:30PM, XRAY - Q4 2010 DENTSPLY International Inc. Earnings Conference Call

Larry Marsh - Barclays Capital - Analyst

And, tax rate, Bill?

William/Bill Jellison - DENTSPLY International Inc. - CFO, SVP

And, the tax rate for the year, we think, is going to be somewhere in the 25%, 25.5% range.

Larry Marsh - Barclays Capital - Analyst

Little bit of a bump. Okay. Very good. Thanks.

Bret Wise - DENTSPLY International Inc. - Chairman, CEO

Thank you.

Operator

We'll go next to Scott Green with Bank of America-Merrill Lynch.

Scott Green - BofA Merrill Lynch - Analyst

Hi. Thanks for the questions. First, I missed a number here, Bill. You said internal growth was 1.7% in the period. Can you repeat the geographic breakouts, please?

William/Bill Jellison - DENTSPLY International Inc. - CFO, SVP

Yes, I've got it. It's 0.6% in the US, 1.0% in Europe, and 4.5% rest of the world for the quarter.

Scott Green - BofA Merrill Lynch - Analyst

Okay. And, you said that pre-buying could have been around a 50-basis-point headwind in the quarter, is that right?

William/Bill Jellison - DENTSPLY International Inc. - CFO, SVP

Well, I think on the pre-buying side the comment that Bret made there was really associated with the price side of the equation. But, as far as changes in overall merchandising related level, I think on an adjusted basis we would think that the sales in the quarter were probably about a half to a full percentage point lower than what would have been reflected if the same levels would have gone through the channel.

Scott Green - BofA Merrill Lynch - Analyst

Okay, so --



Feb. 09. 2011 / 1:30PM, XRAY - Q4 2010 DENTSPLY International Inc. Earnings Conference Call

William/Bill Jellison - DENTSPLY International Inc. - CFO, SVP

So, buy ahead on the price was probably a good 0.5%, maybe a little bit more and then other channel changes within the period were probably a little bit more than that again.

Scott Green - BofA Merrill Lynch - Analyst

Okay. So, the underlying US trend would have been -- is better than 0.6% is what you're suggesting?

William/Bill Jellison - DENTSPLY International Inc. - CFO, SVP

Yes, that's a true statement. But, the comment that I was just making was more on a worldwide basis, but I think you can assume that some of that, obviously, was in the US and some was in Europe.

Scott Green - BofA Merrill Lynch - Analyst

Okay. And, then for the US you said there was some notable improvement in the period. Is that mostly driven by market share gains or better consumer spending patterns or maybe if you could just elaborate on what you're seeing?

Bret Wise - DENTSPLY International Inc. - Chairman, CEO

I made that comment, so -- Scott, so, let me elaborate a little bit. My comment there was basically driven by end user market demand trends during the quarter or during the last half of the year. I think that it felt better late in the year than it did earlier in the quarter or even the quarter before. So, we saw some pickup in end user demand kind of late in the year here which we view positively.

Scott Green - BofA Merrill Lynch - Analyst

Okay. And, your outlook for kind of a better trajectory going forward, is that just based on better end user demand and stable employment levels?

Bret Wise - DENTSPLY International Inc. - Chairman, CEO

I think it's based on a couple things. One is current trends we've seen. Second is that it seems to us at this point that all the bad news is kind of baked into the baseline. We don't see unemployment increasing from here which is what we've had to fight with for some time. And, it seems to be more stable. We seem to see some pickup in economic trends. So, from our perspective kind of looks like the bad news is in the baseline and any improvement from here should start to emerge in our numbers sometime during 2011.

Scott Green - BofA Merrill Lynch - Analyst

Okay. That's great. And, then, what was the growth by specialty category in the period?

Bret Wise - DENTSPLY International Inc. - Chairman, CEO

The growth --

Feb. 09. 2011 / 1:30PM, XRAY - Q4 2010 DENTSPLY International Inc. Earnings Conference Call

Scott Green - *BofA Merrill Lynch - Analyst*

Do you have that for implants and --

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

Well, we don't usually give that breakdown in a lot of detail but implants were a mid-single-digit growth for the quarter.

Scott Green - *BofA Merrill Lynch - Analyst*

Okay. That's great. Thank you very much.

Operator

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

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

Thank you. Good morning, guys.

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

Good morning, Jeff.

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

I'm wondering if we can start maybe on Europe first, the 1% organic growth there, maybe a little softer than we were looking for especially as you came up against an easier comp. Was there anything, Bret, maybe run-off of budgets at year end that pressured spending there? I know you talked about maybe Europe not getting better next year but is there still reason to believe Europe can at least maintain that 3% organic rate in 2011?

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

A couple things on Europe for us this quarter. One is that, when we spoke to the price increases October 1, we moved one large segment of our business from a January 1 price increase to an October 1 price increase in 2010. And, thus, this impact to the price increases is disproportionately larger in Europe than it is in the rest of the world on this one particular quarter.

Second issue is in Germany, and I think this is what you were alluding to, kind of early in the quarter in October, there were announcements made by many of the regions in Germany that they had fully depleted their reimbursement budget for dental and, thus, they suspended the dental reimbursement for the remainder of the calendar year. That, I think, had a modest effect or somewhat of an effect in the fourth quarter.

Looking at 2011, we're reasonably optimistic about Germany, or excuse me about Europe, that it can continue to grow in line with what it did in 2011 -- or excuse me in 2010. I don't think we're going to see the, perhaps as much of an economic pickup in Europe because Europe grew in 2010 and looks pretty stable at this point. But, I believe our markets should be stable to improving in Europe for 2011, and, in particular, we saw a recovery in the CIS region in 2010. We think that's going to continue.



Feb. 09. 2011 / 1:30PM, XRAY - Q4 2010 DENTSPLY International Inc. Earnings Conference Call

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

Fair. And, one follow-up there. The German budget, I think, is up 1% or 2% for dental this year; is that correct? So, there shouldn't be any year-over-year negative impact from that?

Bret Wise - DENTSPLY International Inc. - Chairman, CEO

Yes, we shouldn't have a year-over-year negative impact and, hopefully, they won't run out of reimbursement in certain states late in the year.

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

Yes, sure, okay. And, then, on the gross margin front, Bill, I hear what you guys are saying that operating margin maybe doesn't get back to your normalized 30 to 50 basis points for the year but can be up year-over-year. On the gross margin side, six quarters in a row of kind of tough gross margin trends and then we got stabilization last quarter, a nice pickup this quarter. Should we expect that the gross margin line, those improvements continue and it's just some higher SG&A to support the new products and what have you that weigh on the operating line a little bit?

William/Bill Jellison - DENTSPLY International Inc. - CFO, SVP

No, I'd say that from an SG&A perspective, the reason why it weighed in the fourth quarter on SG&A was really because of the tough comp from last year. I think, as you look at 2011, I think what you should generally expect is that SG&A kind of for the year is probably not going to be improving or hurt much as a percent of sales, and that any improvement that you do see on the operating margin line is going to probably come in the gross margin area.

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

Okay. So, gross margin be up maybe the 10 to 20 BPS that you guys were alluding to there but not the 40 to 50 BPS that we've seen in some past years?

William/Bill Jellison - DENTSPLY International Inc. - CFO, SVP

Yes, and I think that's probably reasonable, at least at this stage, unless there's a broader economic recovery that helps some of the other product categories.

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

Okay. And, two last follow-ups here, if I could. Bret, you mentioned that implants were up mid-single-digits. You didn't talk on ortho. I'm assuming that was still down for the quarter. And, then, maybe any visibility there?

And, then, also, Bill, on the interest expense line, obviously, with the DIO investment does interest expense or net interest expense tick down because those bonds helped the interest income for the year? Is that a fair way to think about it?

Feb. 09. 2011 / 1:30PM, XRAY - Q4 2010 DENTSPLY International Inc. Earnings Conference Call

Bret Wise - DENTSPLY International Inc. - Chairman, CEO

First, on the orthodontics, Jeff, it was relatively flat in the quarter, stronger outside the US than inside the US. And, you have the interest?

William/Bill Jellison - DENTSPLY International Inc. - CFO, SVP

Sure. On the interest side, yes, you should expect a little bit of an interest improvement in 2011 and the majority of that, or a good piece of that anyway, is coming from the interest associated with the DIO convertible bond that we're getting.

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

All right. Thanks, guys.

Operator

We'll go next to John Kreger with William Blair.

Robbie Fatta - William Blair & Company - Analyst

Hi. Good morning, guys. This is Robbie Fatta in for John today. Just on the organic growth that you talked about for 2011, can you tell us what the assumption is for price versus unit trend in that number?

William/Bill Jellison - DENTSPLY International Inc. - CFO, SVP

Sure. I mean, first off, we really didn't give any specific guidance on what we thought the overall sales growth was going to be for 2011, specifically. But, within that number, I'd say that it's reasonable for you to assume that price is going to be probably a positive 1.5 to 2 percentage points, somewhere in that range on average. Some lines are obviously a little bit heavier than that and some a little bit lighter.

But, I think that that's kind of the overall expectation and I think that, based off of that and based off of the comment, that we would expect that sales growth is probably going to be at least a little bit better than it is in 2010, that you should expect that there's some positive overall volume growth in there, as well.

Robbie Fatta - William Blair & Company - Analyst

Got it. Thanks. That's helpful. And, then, I'm not sure if you are able to disclose this or not but can you tell us what percentage of total revenues that Japan alone makes up?

Bret Wise - DENTSPLY International Inc. - Chairman, CEO

I think it's 3% to 4%.

Robbie Fatta - William Blair & Company - Analyst

3% to 4%?

Feb. 09. 2011 / 1:30PM, XRAY - Q4 2010 DENTSPLY International Inc. Earnings Conference Call

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

Yes.

Robbie Fatta - *William Blair & Company - Analyst*

Okay. All right. Perfect. Thanks very much.

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

You bet.

Operator

We'll go next to Greg Halter with Great Lakes Review.

Greg Halter - *Great Lakes Review - Analyst*

Yes, good morning.

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

Hi, Greg.

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

Good morning, Greg.

Greg Halter - *Great Lakes Review - Analyst*

Your cash position, \$540 million, I think it is, where is that located geographically?

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

All of that is over in Europe. So, we don't really have any US cash.

Greg Halter - *Great Lakes Review - Analyst*

Okay. And, of your main categories, the specialty, consumables, lab, can you give a percentage of what those represent of the total sales?

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

Sure. Consumables for the year were 35%. Lab was 16%. And specialties, 46% or so.

Feb. 09. 2011 / 1:30PM, XRAY - Q4 2010 DENTSPLY International Inc. Earnings Conference Call

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

Yes, and that's all on an ex-PM basis.

Greg Halter - *Great Lakes Review - Analyst*

Okay. And, that's for the year?

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

Yes.

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

And the balance -- On dental.

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

On dental.

Greg Halter - *Great Lakes Review - Analyst*

Okay. And, one final one. On your debt, can you remind us of the debt structure and maturities that you may have coming up?

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

Sure. We put in some -- we updated our revolver last year. We did a private placement last year which was a five-year one and keep in mind that, that private placement lock-in, obviously, was one of the factors on the interest rate side that jumped our rate during that period. But, from an overall debt perspective we're in pretty good shape from the standpoint of needing to refinance anything for at least a couple years yet.

Greg Halter - *Great Lakes Review - Analyst*

All right. Thanks.

Operator

That's all the time we have for questions today. I'll turn the call back over to Mr. Wise for closing remarks.

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

Well, thank you for joining us this morning. As noted on the call, we're cautiously optimistic about what we see developing in numerous markets and we look forward to updating you as we move through 2011. Thank you.

Feb. 09. 2011 / 1:30PM, XRAY - Q4 2010 DENTSPLY International Inc. Earnings Conference Call

Operator

This concludes today's conference call. Thank you for your participation.

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