PATTERSON COMPANIES (PADILLACRT)

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Operator: This is the conferencing center. Please standby, we're about to begin. Good day everyone and welcome to the Patterson Companies Fourth Quarter Fiscal 2015 Earnings Announcement conference call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Leslie Nagel. Please go ahead.

Leslie Nagel: Thank you, Kim. Good morning everyone and thank you for participating in Patterson Companies Fiscal 2015 Fourth Quarter Earnings conference call. With me today are Scott Anderson, our Chairman and Chief Executive Officer; and Ann Gugino, our Chief Financial Officer. After a brief review of the quarter by management, we will open up the call to your questions.

Before we begin, let me remind you that certain comments made during the course of this conference call are forward-looking in nature and subject to certain risks and uncertainties.

These factors are discussed in detail in our Form 10-K and our other filings with the Securities and Exchange Commission. We encourage you to review this material. Also, a financial slide presentation can be found in the Investor Relations section of our website at pattersoncompanies.com.

Please note that in this morning's conference call, we will reference our adjusted results for both fiscal 2014, which exclude the impact of a restructuring charge in the medical business, and for fiscal 2015, which exclude one-time transaction costs, as well as constant currency results for fiscal 2015.

A reconciliation of our reported and adjusted results and foreign currency impact can be found in this morning's press release. Be advised that this call is being recorded and will be available for replay starting today at noon central time for a period of one week.

With that, I'd like to hand the call over to Scott Anderson. Scott?

Scott Anderson: Thank you, Leslie. Welcome everyone to this morning's conference call. At the beginning of fiscal 2015, we set a goal to make the most of the opportunities before us, execute well in each of our businesses, and position the company for the future. We are pleased to report significant progress on those fronts.

We decisively moved forward on our stated strategy to drive shareholder value by broadening our view of our markets and building on our strengths. That commitment took on new meaning with the announcement after quarter end of our definitive agreement to acquire Animal Health International.

We also announced the potential sale of our medical unit, which would allow us to deepen our commitment to our dental and veterinary businesses. Assuming we complete these two transactions, it will transform the strategic growth profile of the company.

In addition to these potentially transformative moves, we strove during the fourth quarter to deliver on the financial objectives we had established for the fiscal year.

During the full year and quarter, we focused on execution and operating discipline across all of our businesses, and these efforts paid off. We are pleased that all three of our businesses posted healthy results during the period. Patterson Companies generated record fourth quarter results and we have a firm foundation in place for the transformation we are pursuing.

Consolidated revenues for the quarter rose 6.7% on a constant currency basis of $1.1 billion. Adjusted earnings per diluted share for the quarter totaled 68 cents. During our third quarter conference call, we had forecasted a solid end to fiscal 2015. Our performance in the fourth quarter allowed Patterson to finish the year strong.

For the full 2015 fiscal year, consolidated revenues reached $4.4 billion, up 8.7% on a constant currency basis, and adjusted diluted earnings per share rose to $2.27, at the higher end of our guidance.

As Ann will detail a bit later, our 2015 adjusted results exclude one-time transaction cost related to our proposed Animal Health International and Medical unit transactions.

We also stressed on our last call that we are encouraged by the stable to strengthening market conditions we are witnessing, supported by a gradually improving job market and consumer confidence. We see the same conditions today and are excited about the opportunities in front of us.

I'd like now to look at Patterson Dental. Today, Patterson Dental is our largest business with nearly 60% of total sales. Consolidated sales in dental grew by double-digits in the quarter on a constant currency basis, with equipment and software sales leading the way.

Sales in the equipment and software category rose more than 23% on a constant currency basis and we are pleased with the growth and share gains in technology oriented sales.

CEREC CAD/CAM and digital technology sales were strong during the quarter. This reflected outstanding execution on the part of Patterson Dental sales professionals and high customer interest. The pace of technology sales growth during the quarter further supports our belief that dentists are eager to invest in technology that improves patient experience and clinical outcomes.

It also affirms the overall trend for dental office modernization. Moreover, we believe that Sirona's innovation culture and Patterson Dental's industry leading sales, technical service and after sale support is a powerful combination.

During the fiscal year, we significantly increased the number of users of the CEREC CAD/CAM platform, as we continued towards our goal of achieving 30,000 CEREC users by 2020, doubling the CEREC user base in the next five years.

We believe that our offerings and market fundamentals set the stage for continued growth and market share gains. As we announced in January, we are in the process of expanding our partnerships in the traditional core equipment category. Our relationship with A-dec will remain very strategic to our future growth plans.

In the past weeks, we have formally announced new relationships with Pelton & Crane and the Belmont Company. Both of these partners bring unique opportunities to our sales force and customers.

We are excited as well to launch the Sirona line of treatment centers and traditional equipment later in the fall. Patterson has long been the partner of choice for dentists investing in their practices. We see our expanded relationships creating many new growth opportunities.

Looking at dental consumables, we experienced 3.3% growth in constant currency in this category. We are confident both that the trend towards higher number of office visits and overall demand for dental services will continue, and that we have the industry's best sales force to help our customers address this demand.

Moving now on to Patterson Veterinary, which today comprises just under 1/3 of total sales, consolidated veterinary sales were up 2.7% on a constant currency basis. Equipment and technology will continue to be a growth opportunity and differentiator. During the quarter, sales in this category improved more than 31% in local currencies.

Patterson Veterinary continued to grow this quarter, while we progress with the transition to our new manufacturing relationship with Abaxis. Abaxis is a market leader in point of care blood instrumentation and consumables for the veterinary market and medical and research customers. We are still early in our transition from IDEXX to Abaxis, but we are off to a good start and are pleased with the Abaxis placements today.

Patterson is selling the full line of Abaxis' veterinary diagnostic products, including external reference lab services and in-clinic testing. Like in Dental, we are well positioned today in - at Patterson Veterinary to take advantage of the stable to improving market conditions, both here and in the United Kingdom, through our market-leading technical service and support as well as the premier sales force.

Of course, there are compelling growth trends in the companion animal market, with pet ownership and the amount spent for pet continuing to grow. The prospects for Patterson Veterinary now have the potential to get even more exciting. With the acquisition of Animal Health International, the size of Patterson Veterinary will double.

We will significantly expand our presence in the production animal market, which has its own very promising long-term growth prospects, and it will create meaningful leverage across our animal health platform.

Turning now to Patterson Medical, this is our rehabilitation supply and equipment unit representing approximately 10% of our total sales. Medical's performance during the fourth quarter was again very solid and reflects the hard work our team has done to refine their market focus for this business and execute every day.

This resulted in the fourth consecutive quarter of sales growth excluding currency and divestiture impacts. Today, Patterson Medical has a strong platform, momentum in the business and position in the marketplace as the global leader in the physical therapy, occupational therapy and sports medicine markets. We finished the year strong and carried momentum into fiscal year 2016.

With that, I'll ask Ann to review the financials. Ann?

Ann Gugino: Thank you, Scott. Let me begin by reiterating that we are pleased with our fourth quarter performance and the contribution from all three of our businesses.

Note, that to help clarify our underlying operating performance, I'll be discussing adjusted results for the fourth quarter of both fiscal 2015 and 2014. This excludes one-time costs related to both the pending Animal Health International acquisition and the potential Patterson Medical transaction in the 2015 period, and restructuring costs in last year's fourth quarter.

Starting with the top line, about 20% of our total revenue comes from international sources. Therefore foreign currency had a meaningful impact on our non-US sales.

On a consolidated basis, currency translation reduced sales by 2.5 percentage points. From an EPS perspective, that impact was about 1 cent per diluted share.

Now, turning to each of our segments, beginning with dental, dental sales improved 10.3% on a constant currency basis year-over-year. As Scott mentioned, consumables continued to grow up 3.3% in constant currency.

To put this quarter into context, year-over-year growth for the first, second and third quarters of fiscal 2015 was 2.5%, 3.1% and 4% respectively. So, the fourth quarter growth in this category was in line with the momentum we saw during fiscal 2015.

We are excited about the expansion in technology sales during the quarter. Notably, new user demand for CEREC was strong, which helped drive up the equipment and software sales category by 23.3% on a constant currency basis.

Turning next to veterinary, veterinary sales were $356 million, up 2.7% in constant currency. Please keep in mind this is the first full quarter impacted by the transition from IDEXX to Abaxis. You'll recall that IDEXX shifted to a direct sales model on January 1.

Fourth quarter results in veterinary reflect the disruption created as we replaced those products with the Abaxis line. I also want to mention that due to seasonality, the current quarter and the first fiscal quarter of 2016 will show the most pronounced impact on revenues from this shift.

Excluding the contribution from the diagnostic sales, provides a more normalized picture of growth within the veterinary segment. Veterinary sales excluding the diagnostics change, improved 8% in constant currency and more than 10% in the US.

Looking at our UK operation, NVS, this division is performing well post integration on a local currency basis. Growth in NVS during the fourth quarter was 5%.

On to medical, again, we had solid performance this quarter, the segment's fourth consecutive quarter of sales growth. Sales totaled $113.8 million in the quarter, up 3.7%, excluding currency and prior year divestiture impacts.

Now, turning to margins, consolidated gross margin was 29%, up 30 basis points from the adjusted fiscal 2014 fourth quarter. This is due to sales mix during the period.

Growth in the higher margin dental revenue outpaced revenue growth from lower margin veterinary by several percentage points during the quarter. From an operating leverage perspective, we are realizing the benefits of scale at higher sales volume. Adjusted operating margins rose 70 basis points, an 11.3% increase in operating profits.

Within dental, our operating margins, excluding corporate expense rose 50 basis points. In veterinary, operating margins held steady year-over-year. Operating margin in our medical unit increased 3.5 percentage points excluding the divestitures.

As expected, our adjusted effective tax rate in the fourth quarter was 35.1% versus 33.7% in the prior year. Our DSO remained unchanged year-over-year at 50 days and our inventory turns were at 6.8 compared to 7.1 a year ago.

Looking at the full fiscal year, our goal was to execute in all of our businesses and we delivered on several fronts. Patterson's organic growth was 4.3% excluding acquisition, IDEXX and currency impact. We expanded our operating margins excluding the impact of NVS by 10 basis points.

Operating cash flow improved by 34% to approximately $263 million, and Patterson returned $129.3 million to shareholders in dividend and share repurchases.

Patterson had lower share repurchases in fiscal 2015. As is clear now, there were important strategic reasons that prevented us from being in the market later in the fiscal year. Nevertheless, share repurchases remain an important component of our capital allocation strategy.

A few balance sheet items. During the fourth quarter, we favorably refinanced $250 million in private placement debt that came due in March. We remain confident in our ability to generate growing cash returns on our business investments and growth opportunities.

Fourth quarter CAPEX totaled $18.4 million and included investments from normal replacements, as well as our corporate wide information technology initiative.

For the fiscal 2016 full-year, we are currently estimating CAPEX of approximately $50 million to $60 million and an annual tax rate of approximately 35%.

Finally, as you saw in our release, we’re establishing our adjusted fiscal 2016 earnings guidance in the range of $2.40 to $2.50 per diluted share. This guidance range includes the impact of an extra week in fiscal 2016. I'll note that this guidance excludes approximately 5 cents of one-time training cost related to our enterprise resource planning implementation.

Regarding this initiative, we are currently in the testing phase and expect the pilot rollout of this new platform to begin in late fall or early winter. Our guidance range also excludes the potential impacts from the acquisition of Animal Health International and the impact of a potential sale of Patterson Medical. We intend to update our guidance ranges as these transactions unfold.

We are excited at the prospects for what these two potential transactions could mean for Patterson. While medical is a solid margin contributor, Animal Health International would add a much larger, more synergistic growth opportunity and a more expansive platform for enhancing our financial profile over the long term.

We expect this transaction to be accretive in the first year on an adjusted basis. Pro forma revenues for the veterinary segment are approximated at $3 billion.

It would diversify the revenue mix between companion animal and production animal with production animal revenue increasing from 11% to 51% of the total for the segment. And lastly, we see significant opportunity to grow the bottom line between $20 million and $30 million in realizable synergies over a three-year period.

With that, I'll turn it back to Scott for some further comments. Scott?

Scott Anderson: Thanks, Ann. Our transition from fiscal 2015 to fiscal 2016 has special significance. We immediately faced a couple of important milestones. The first is working toward the close of our agreement to acquire Animal Health International. I want to remind you why we are so excited about this combination.

We believe that Animal Health International is the ideal partner to create a complete platform for Patterson Veterinary. It will immediately bring to Patterson extensive leadership in the production animal space, adding a new component to our revenue mix that is tied to its own unique compelling market opportunity.

Today, Animal Health International is posting better than GDP growth and we will have the chance to build on that through cross selling our clients - cross serving our clients.

Their experience in serving beef, dairy, cattle, and swine producers complements the strengths both companies share in the companion animal and equine markets.

And for our customers in particular, this will mean new opportunities to better serve them. Both Patterson and Animal Health International place a premium on innovation, technology investment, and high-touch customer service.

Just after our recent acquisition announcement, we launched a microsite dedicated to this transaction, pattersonanimalhealthinternational.com. We will be using this site to provide information on the combination of Patterson Veterinary and Animal Health International as we work towards closing the transaction and move forward with the integration process.

The second milestone is potentially selling Patterson Medical. As we stated before, our goal is to find a buyer that values the performance based culture our team has worked hard to create and one that intends to invest in the future to unlock its potential.

Moving ahead, we remain focused on our capital allocation strategy. Even with the proposed transactions ahead of us, we maintain a balance sheet that gives us a lot of flexibility. During the fourth quarter, our board of directors approved a 10% increase in our dividend.

We remain committed to utilizing all the means we have at our disposal, including investments in our core business, dividends and share buybacks to create value for our shareholders.

Before we go to Q&A, I want to point to other initiatives launched this year and accolades awarded to Patterson, which we are particularly proud of, and that reflect our values and the unique culture we strive to maintain.

In January, we stepped forward to draw awareness to potentially unsafe dental products entering the marketplace, when we announced our efforts to promote integrity ((inaudible)) dental supply chain.

This initiative demonstrates our commitment to ensuring product safety in the supply chain for our dental customers, and represents a unique approach to industry leadership that's important to Patterson.

Reflecting that commitment, Patterson was named to the Forbes List of 100 Most Trustworthy Companies in America for the fourth year in a row. Patterson is one of only two companies in 2015 that have appeared on the list four consecutive years. Every employee in our organization should be deeply proud of this honor.

Patterson was also added to the Honor Roll for the 2014 Minnesota Census of Women in Corporate Leadership. This distinction given by the School of Business and Leadership at St. Catherine University in St. Paul, Minnesota, recognizes Minnesota public companies with 20% or more gender diversity in their executive ranks and on their board of directors.

We are grateful for this acknowledgement of our commitment to equal opportunity. I want to thank all of our employees, customers, and of course our shareholders for their support during the successful fiscal 2015.

With that, now we'd like to take questions. Kim, I'll turn the call back over to you.

Operator: Thank you. If you would like to ask a question over the telephone, please press star 1 at this time. If you’re using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment.

Once again, it is star 1 if you're like to ask a question. Our first question today is from Kevin Ellich from Piper Jaffray.

Kevin Ellich: Hi, good morning. Thanks for taking the questions. And nice quarter, Scott and Ann. I guess starting...

Scott Anderson: Thank you.

Kevin Ellich: ...with dental, you know, with dental consumables up 3.3%, we've seen some pretty good trends. Can you talk about what you're seeing now and I guess what type of consumable growth is basically your outlook for 2016?

Scott Anderson: Yes. Thanks, Kevin. We see the market continuing to strengthen and we see probably market growth in the next year in the range of 2% to 3% and we would expect to grow faster than that.

We're encouraged by how we started off our new fiscal year. And that will be a real focus for our team this next year's accelerating growth. We believe in the year, we absolutely took market share and grew faster than the market and it's I think really a case of the two larger players both growing faster than the market.

Kevin Ellich: Great. That's helpful, Scott. And then, you know, just switching over to the vet business, Ann, you gave some good details on, you know, I guess, excluding the diagnostic shift.

Can you talk maybe about what type of traction your sales force is getting with the Abaxis product line? And then I've got a follow-up on the AHI deal as well, thanks.

Scott Anderson: Yes, Kevin, I'll take the Abaxis question. We're I think very pleased where we sit today with Abaxis and our sales force is fully trained and fully engaged, and Abaxis as a partner is putting the resources behind our organization to make it successful.

For competitive reason, I don't think we'll give out a number on placements, but I could say, we are very pleased with where we sit today and the entire organization is excited about the opportunities in front of us in the new fiscal year.

Kevin Ellich: Great. And then, Scott, since I've got you, going into the Animal Health International business, good to see some more information and disclosure on that. Just wondering, how much exposure does AHI have in poultry and, you know, have they seen any impacts from avian flu?

Scott Anderson: Yes, very little poultry exposure. The majority of that business is beef cattle, dairy cattle and swine. So, it's not a material impact from the avian flu.

Kevin Ellich: Great. That's all I have for now. Thanks, guys.

Scott Anderson: Thanks, Kevin.

Operator: And moving on, we'll hear from Robert Jones from Goldman Sachs.

(Adam Noble): Hi, this is (Adam Noble) in for Bob. Thanks for the question. I'm wondering if you could talk about equipment sales, really nice accelerate - reacceleration in the quarter.

I'm just wondering if you could comment on the growth rates of basic versus high tech in the quarter, you know, how CAD/CAM specifically performed in the quarter?

And then to what extent did the 4Q number reflect the catch-up from some of the lost sales in 3Q or do you believe that most of the quarter was organic growth?

Scott Anderson: Yes, Adam, I would start with 3Q/4Q question. I don't believe there was any catch-up. When you look at how some of our competitors performed in the beginning half of the year, I don't believe there was a spillover effect from the Section 179 issue we had at the end of the year.

I would attribute the quarter to just very strong execution at Patterson and high demand for the portfolio of products we sell, consistent execution. Actually, when you look at the full year, we had a mid-single digits growth in traditional equipment, which I think is a great sign that the future is really, the first full year growth number we've seen in that category since 2010.

Obviously, the digital products performed very well in the fourth quarter, really led by CEREC. And as we've said many times, we are great believers that the CEREC product is a transformational product for our customers and we were excited to see the - in the year, the new user growth was very good, and we continue to act on that momentum with CEREC.

(Adam Noble): Great. That's really helpful. And to think about the FY ‘16 guidance within the context of the long-term targets you provided at the Analyst Day. You know, anything you could share around the expectations for margin expansion, you know, for FY ‘16, obviously in context of some of the ERP investments? And any thoughts you could give on margin expansion from a segment standpoint would be very helpful.

Ann Gugino: Yes, this is Ann. So, baked into our guidance is between a 20 basis points and 30 basis points operating margin expansion for the year, and that's mostly driven by revenue growth and leverage on fixed and semi-variable costs that results from scale.

Typically, to your point, we would be able to get a little bit more than that based on where we're targeting the revenue growth. But as you pointed out, we do have some continued strategic investment in IT in fiscal ’17 and that will continue to be - FY ‘16 and FY ‘17 will continue to be heavy investment years.

We did pull out the one time training cost for you, but I would point out that this - in the baseline guidance, there is some ramp-up in just ongoing IT expenses to support the future space as well.

So that’s pulling down that 20 to 30 basis points by, say, 10 to 20 basis points.

(Adam Noble): Okay. And on the segment specifically?

Ann Gugino: You know, I don't know that we typically give that information out by segment.

(Adam Noble): Okay. Appreciate the questions.

Scott Anderson: Thanks, (Adam).

Operator: And we'll go next to Michael Cherny from Evercore ISI.

Michael Cherny: Morning and thank you for taking the question. So...

Scott Anderson: Hi, Mike.

Michael Cherny: ...I want to - hey, so I want to talk a little bit about the medical business. As you think about your decision to pursue a sale of the asset, how does that impact the way that you manage the business?

Will it still be business as usual? Are there certain areas where you'll reallocate resources to some of your other growth businesses as you start to accelerate, the veterinary growth as part of AHI?

Just want to think about how that will now fit into the overall portfolio. And if anything, you know, the question maybe for Ann, just a technical question, was there any thought of moving it directly into discontinued ops at this point?

Scott Anderson: Yes, I'll start first, Mike and then turn it over to Ann. I would say if you look back at really how we've run this business over the last 24 months and since Mike Orscheln came in as its leader, we've really, from a strategy perspective, even though - even before we began the process to potentially sell the business, have focused on organic and the team has done a very good job at that.

I was just with the sales force this week at their national sales meeting in Chicago on Tuesday, and I would say there is a lot of excitement and momentum and spirit in that business.

So, as we talked about, it is a potential sale. They have a very solid game plan in front of them, they're executing well, and I don't see that stopping. In terms of investment in the business, we continue to invest in programs and IT. The thing we have not invested in over the last few years is on the M&A front for that business.

So I think you would see the M&A dollars moving more towards medical and dental - I'm sorry, dental and veterinary, but very, I think, exciting story still to play out at medical.

Ann Gugino: And then I would just chime in on the discontinued ops, just piggybacking on something that Scott mentioned. You know, this is not a distressed asset. It's a very well performing asset.

And so while we're exploring a sale, you know, we are not - we would not just sell it for any price. And there are some very technical accounting rules on when something becomes a discontinued operation, and we have not met those requirements yet.

Michael Cherny: No, that's helpful, Ann. I was just more thinking from an accounting perspective how you think about it, so that's great. And then just one other accounting question, specifically for you Ann. I know you don't guide specifically to buyback, but because of the...

Ann Gugino: Sure.

Michael Cherny: ...strategic transaction announcement, are you blacked out from doing buybacks? Are you able to execute at this point? Just from a pure accounting perspective.

Ann Gugino: Yes. No. And not from accounting as much a business decision.

Michael Cherny: Yes, exactly.

(Crosstalk)

Ann Gugino: ...decision. But, yes, we are blacked out at the market until these transactions are complete. And what I would tell you is that once they are completed, it would be our intention to get back in the market.

And I would expect our share repurchases, you know, once we're able to get back into the market on an annual basis to be between $100 and $150 million of cash allocated to share repurchase, which would be in line with our overall capital allocation strategy.

Michael Cherny: Very helpful for the model. Thanks.

Scott Anderson: Thanks, Michael.

Operator: And we'll take a question from Brandon Couillard from Jefferies.

Brandon Couillard: Hey, good morning.

Scott Anderson: Hey, Brandon.

Brandon Couillard: A couple housekeeping items for Ann. Could you quantify for us in terms of the guidance what you contemplated for the medical unit operating income for the year or perhaps some directional indication whether it's flattish or, you know, up a little bit?

And could you quantify the dollar amount for the divested products in the fourth quarter? And is there any carryover from those activities in ‘16?

Ann Gugino: Okay. So, those are great housekeeping issues and you have me on my toes, so let me just look for a second. So, let me answer the easy one first. The divesture is complete. And so, to answer your question, there's no hangover going into ‘17. So, we'll have a clean comparison in ‘17.

Scott Anderson: Sixteen.

Ann Gugino: I'm sorry, in ‘16. I'm getting my fiscal years mixed up - in ‘16 for the medical business. As far as modeling purposes, you know, I'm not really comfortable just giving you the exact operating income. I'm going to make you work for it a little bit. But what I would tell you is that we've got mid-single digit improvement there and operating leverage within that unit.

And then I think, your question on quantifying the exact impact of the revenue on the divested sales, I think you can back into it and I can get you the number offline. But, the reported growth for the quarter excluding divested sales was 3.7%, but that also excluded currency.

And I think our reported growth was - let me get it here - our reported growth was down 3%. So I think you can kind of back in to the dollar impact. I think it's - I think...

Brandon Couillard: Perfect.

Ann Gugino: I think when you do the math, it's between $3 million and $4 million.

Brandon Couillard: Okay. Yes. All right. 3.7%. All right, we can do the math there. And then one more, can you - are you able to quantify the impact of the extra week on EPS for the year? And then, any color you have around operating cash flow for the year would be helpful.

Ann Gugino: Sure, the impact of the extra week, you know, it's very difficult to kind of say what the exact impact on EPS is. What I can tell you is that we estimate that it has about a 1-1/2 percentage point impact on the revenues. So you can kind of make some assumptions there and back in to a number.

But I would tell you that that's not one that we typically disclose just because there's a lot judgment in what that number is and it's difficult to quantify. Thinking about cash flow, we would expect to convert 100% of net income into free cash flow next year.

It could be a little bit better than that or a little bit less than that depending on working capital. But I think that's a good ((inaudible)).

Brandon Couillard: Super. Thank you.

Operator: And Robert Willoughby from Bank of America has our next question.

Robert Willoughby: Hey, Ann, on that - the cash flow question, you generally finish the year with a slightly better - you know, things pick up or improve from a working capital management experience. It looked like it kind of deteriorated this year and the DSOs were what really stuck out in our model.

Is there anything driving that? Is it just mix issues or is there a difference in philosophy on how you're managing those line items?

Ann Gugino: No, nothing different philosophically. And I think what it is is really just timing. We had an incredibly strong April. And so, then just depending on the collection cycle with receivables when you finance and sell all that equipment in the last five days of the fiscal year. So I think it's more timing.

Robert Willoughby: Okay. And you're not restricted from selling anything on that front? There's no promotion or whatever by now, pay us in six months or 12 months?

Ann Gugino: No. But to that point, when we sell, we sell a month in arrears or a month, you know, so really selling through March. So, when April’s really huge, right, that stuck on the balance sheet.

Robert Willoughby: Okay. And Scott, I think you've hinted at it, yet you cited a strong technology sales in dental equipment business. I'm not sure I got the flavor on the basic equipment side. Are we kind of hitting that upgrade cycle finally or what was the comment on basic equipment and the strength there or lack thereof?

Scott Anderson: Yes, I would say we're starting to see signs of life in terms of new office construction. We've always been very consistent talking about as the dentists gets busier and is more confident about their book of business and their practice, is when they're more likely to start making more major investments in physical plant in terms of new office builds or remodels.

So, as we look out I think over to the next one, two, three, four years, we would see that business beginning to accelerate. But at the same time, accelerating in a way that doesn't cannibalize the technology opportunity, which we feel still has a very long runway and greenfield in front of us as we move the profession to more modern practices.

Robert Willoughby: Okay. Thank you.

Scott Anderson: Thanks.

Operator Moving on, we'll go to John Kreger from William Blair.

John Kreger: Hi, thanks very much. Scott, just a couple of CEREC related questions. Did you roll out the Omnicam scanner into the ortho setting yet?

Scott Anderson: John, we have. We just rolled it out at the AAO Meeting in San Francisco this week. And the early reports I've gotten back from our folks is a very high level of interest, our booth was - both our booth at Patterson Dental and our booth at Dolphin Imaging, they said is the busiest they've seen it in five years.

So we're excited about that opportunity. I would say the integration with Invisalign as well, just speaks to the story of the CEREC machine being a very versatile tool that is going to have multiple modalities for the clinician.

So we look at the improvements that had happened with CEREC in the last six months is absolute validation of the story of why this is a - should be a centerpiece technology in every dental practice.

John Kreger: Great. Great. Your early thoughts on ortho, do you think that can ramp quickly, given the volume that the typical ortho practice has or should we expect that to be more of a gradual ramp since it's a fairly new market for you guys?

Scott Anderson: I think it will be gradual and I think you have to be careful just in terms of sizing up the opportunity. You know, but it's a new market and an exciting market, and I think you'll see a gradual build and it's creating a lot of excitement in this space, which we're excited about.

John Kreger: Great. Thanks. And then, how was your corporate practice in dental this quarter? And did the ADP deal contribute anything in the April quarter?

Scott Anderson: It did in April. We're very excited that American Dental Partners made the decision to invest in the Omnicam. We have been a partner of American Dental Partners for many years and they're very discerning buyers and they go through a very detail evaluation and due diligence product when they pick a technology.

And they don't necessarily pick a technology just because they're partnered with Patterson. And I think this is another great validation of the CEREC technology that ADP has decided to invest in their practices and really move to a digital platform.

I would say from a special market's perspective, our team is very active right now. We're in the midst of many, many discussions, and we look at that segment of our business being absolute growth opportunities for years to come.

John Kreger: Great, thanks. And then one last one, you mentioned the new goal to get 30,000 CEREC by 2020. How's that going? Are you seeing maybe better breadth out of your salesforce? Are you seeing some traction in some of the new structures that you've put in place?

Scott Anderson: Yes. I would say, our organization is absolutely aligned around this goal and our salesforce and our managers and our folks that support the technology really are believers.

You know, we've been selling this technology now for well over a decade and we believe this will be the standard of care. You know, I personally had a CEREC restoration done in the last month, and I would tell you from a patient perspective, it is a great experience when you go to the dentist and have a beautiful restoration done in one visit.

So, the team Patterson is all in and we know it's a big goal, but I'm absolutely confident we're going to reach the goal.

John Kreger: Great. Thanks much.

Operator: And just a reminder, it is star 1 if you'd like to ask a question today. Moving on, we'll hear from Steven Valiquette from UBS.

Steven Valiquette: All right, thanks. Good morning.

Scott Anderson: Hey, Steve.

Steven Valiquette: Congrats on these results. So...

Scott Anderson: Thank you.

Steven Valiquette: ...and I guess just from me, just a couple of questions on the fiscal '16 guidance of $2.40 to $2.50. You know, first I just want to confirm that this does not strip out any of the deal related amortization under the core Patterson operations, obviously, prior to the AHI deal.

Ann Gugino: That is correct.

Steven Valiquette: Okay. Just want to - I thought that was the case. Just want to make sure.

Ann Gugino: No, I appreciate ((inaudible)).

Steven Valiquette: Sorry. Okay. So two other quick ones here, I guess just while the dental equipment growth obviously is still pretty volatile on a quarterly basis throughout the fiscal '15. When you take a step back it grew just a little over 3% constant currency for the full year.

And just wondering if you would expect that potentially accelerate in fiscal '16, you know, separate from the benefit of the extra week, of course.

Scott Anderson: Yes, Steve. Absolutely, we would expect that to grow. You know, CEREC, which is a large chunk of it, our CEREC growth was in that 4% range. But when you break it into trade-ups versus new users, the new users were up strong double-digits.

So, we got past the - sort of we climbed the mountain of getting over the trade-ups. And I would say going into the new year from both an equipment and technology standpoint, we feel like there's a lot of sort of key opportunities in front of us.

One is an improving market, improving confidence from the dentist. You look at the new technology rollouts that Sirona did at the IDS meeting in Germany in March, the additional modality improvements to CEREC. We have a CEREC 30 Anniversary event in Las Vegas, which I think will serve as a catalyst.

And then I think the other opportunity - and you've got to remember that our third quarter was very weak due to the Section 179 tax changes. I believe if that gets in place at the right time, we're absolutely set up, I think, potentially to have a very strong equipment year.

Steven Valiquette: Okay. And as far as the extra week, by the way, I just want to confirm, that'll be in the fiscal first quarter. Is that correct? That was the case historically when you had an extra week.

Scott Anderson: Yes. Yes, it will be in first quarter.

Steven Valiquette: Okay. I just want to make sure ((inaudible)). Okay. And a final quick one, just kind of more of a comment. But, you know, on that earlier topic, you are finally getting some pretty good EBIT growth in your medical segment. So I guess - are you sure you want to sell it now?

And also, you know, should you have perhaps announced the planned divestiture of all your divisions because it definitely it still invigorates the results. So I just thought I'd mention that as well.

(Crosstalk)

Scott Anderson: I would say about medical, Steve, is it's a great team. We think we're market leaders. And as Ann said, we think it's a great asset for the right buyer to buy and really unlock potential, and have us concentrate on dental and vet.

But at the same time, obviously, the value for that business has to be realized, and we understand that, you know, the one thing about - and we're - we've been an acquirer of distribution businesses for the 20 plus years we've been public and have growth from $300 million to now nearly $4-1/2 billion. With distribution companies, it's always about the people, and I would tell you we have fantastic people at Patterson Medical.

Steven Valiquette: Okay. Great. Thanks.

Scott Anderson: Thanks, Steve.

Operator Our next question comes from Jon Block from Stifel.

Jon Block: Great. Thanks, guys and good morning. Just first on the guidance, you know, looking back, I think the refi and the debt might give you an extra sort of 3 cent tailwind next year. And Ann, I ran some rough math on the extra week. I'm arriving at around 04 cents or so.

And, you know, after you make some of these adjustments, if you look at the fiscal year 2016 guidance, the growth seems pretty modest. It implies around 4% or about half the rate of growth that you achieved in fiscal ‘15. So, is that the right way to look at it? And if so, with the end-markets improving, Scott, why would we see sort of the step-down in EPS growth in ‘16 relative to ‘15?

Ann Gugino: Let me take the first stab at that. First, I think as you walk through with me with some of your assumptions on interest expense and the extra week, I think you're a bit heavy on both of those in terms of the rates that we were able to refinance the debt at as well as some of your assumptions around the extra week. So, maybe that's something we can kind of take offline.

So, what I would tell you is, I think you've got pretty rich estimates in there for those. I would say that similar to last year, we did build some conservatism into our guidance.

So, I would say there is more upside potential than downside risk in the range that we put out today similar to last year. And we've tried to share with you the various items that can affect it one way or the other.

But I would just close, I think, our expectation is to absolutely turn in a strong performance for next fiscal year.

Jon Block: Okay. Great. No, and I can certainly follow up with you offline. And just to shift gears, maybe one or two more, the restructured A-dec deal, I know you guys obviously called up Pelton Crane, and you said Sirona starting - I think, Scott, you mentioned in the fall or call it, you know, roughly halfway through your fiscal year.

So, how do we view it this year and then going forward? In other words, is it sort of a hit in fiscal '16 as you break the exclusivity and you bring on the additional manufacturers?

And then in fiscal '17 and beyond, it's sort of, you know, if you want to call it accretive as you gain momentum was some of these additional players.

Scott Anderson: Well, we were never exclusive with A-dec. They sold through multiple distributors. We were obviously the largest channel and we absolutely intend to continue for years to come to be the largest channel of the market for A-dec.

I look at the year full of opportunity in terms of, you know, maybe some slight disruption in changing partners. But as I travel the country and talk to our sales people, I think they're very excited and we'll continue to be great supporters of A-dec.

But now I have many multiple options for customers and I think we're very excited in terms of sort of creating new markets potentially with the Sirona brand, once they get everything through - get all their approvals through and we think that will happen in the fall.

So, I don't see it as being much of a speed bump at all. If anything, I think it's potentially could be a very strong year for the whole core equipment line.

Jon Block: Okay, got it. Thanks for that. And last one, you know, medical was huge in the op margin and I don't think and you broke out the one-time transaction cost, but depending on how much medical got relative to vet, you know, the medical op margins could have been, I don’t know, 18% or 19% in the quarter.

I get it that you divested maybe some of the lower end lines, but just any commentary on the momentum there and the big step-up in the margins, both, you know, in year-over-year and sequentially, et cetera?

Ann Gugino: Yes, sure. I mean, you hit on a piece of it, which is really, you know, we divested some unprofitable lines, so certainly that helped things. And then also as part of the restructuring effort or right sizing the business effort, we did do some rightsizing on the OpEx line.

And so in the prior year fourth quarter, you had some severance costs that we didn't call out, if you will, as a non-recurring item. It's sitting in that op income last year, so that's providing a little bit of a favorable comp.

And then I would just tell you, when you look at it, the 50 basis points sounds like a lot, but I think it's like $3 million to $4 million on the operating line when you kind of look at it in total. So you just kind of look at the size of the numbers.

So I would reiterate by saying, a lot of it's just due to the restructuring activities.

Jon Block: Got it. Okay. Thanks for your time, guys.

Scott Anderson: Thanks, Jon.

Operator: And that's all the time we have for questions today. Mr. Anderson, I'll turn the conference back over to you.

Scott Anderson: Thank you, Kim and thanks everyone for joining us today. Again, we're very pleased with the momentum we carry into fiscal 2016. Just to note, Ann and I will be attending three upcoming conferences; the Stifel Dental and Veterinary Conference, the Jefferies Global Healthcare Conference, and the Goldman Sachs Annual Global Healthcare Conference. We look forward to seeing many of you at these events.

I'd also like to remind everyone that we plan to host an analyst day after we close on the Animal Health International transaction, where we intend to update our guidance. We look forward to giving you a deeper look into the combination of these two great companies at this time. Thank you.

Operator: And that does conclude our conference today. Thank you, all for your participation.

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