PATTERSON COMPANIES

EDITED TRANSCRIPT

PATTERSON COMPANIES 4th QUARTER
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PRESENTATION

Operator

Good day, ladies and gentlemen. Thank you for standing by. Welcome to the Patterson Companies' Fourth Quarter Fiscal 2014 Earnings Announcement conference call. During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference will be open for questions. If you do have a question, please press the star key, followed by the one on your telephone keypad. Please press star, zero for Operator assistance at any time. If participants are using speaker equipment, please lift your handset before you make your selection. This conference is being recorded today, May 22nd, 2014.

I would now like to turn the conference over to Ms. Ann Gugino. Please go ahead, ma'am.

Ann Gugino *Vice President, Strategy and Planning*

Thank you, Danielle, and good morning, everyone, and thank you for participating in Patterson Companies' fiscal fourth quarter earnings conference call. With me today are Scott Anderson, our Chairman and Chief Executive Officer; and Steve Armstrong, our Executive Vice-President and CFO. After a brief review of the quarter by management, we will open the call up 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 urge you to review this material.

Also, please note that in this morning's conference call, we will be referencing our adjusted results for the quarter in Steve's detailed financial discussion. Adjusted results exclude the impact of the restructuring charge for the medical divestiture. A reconciliation of our reported and adjusted results can be found in this morning's press release.

Since Regulation FD prohibits us from providing investors with earnings guidance, unless we release that information simultaneously, we've provided financial guidance for fiscal 2015 in our press release, as well as in the financial slide presentation supplementing this conference call that can be found in the Investor Relations section of our website at pattersoncompanies.com.

Be advised that this call is being recorded and will be available for replay starting today at 11 a.m. Central Time for a period of one week.

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

Scott Anderson *Chairman, President and Chief Executive Officer*

Thanks, Ann, and welcome, everyone, to this morning's conference call. As you saw in today's earnings release, Patterson Companies' consolidated revenues rose approximately 14% in the fiscal fourth quarter. Though the year-over-year growth is attributable to our acquisition of NVS, we believe we were able to maintain market share in a very challenging macro environment. Severe weather conditions did play a role during the quarter, and no doubt you've heard about weather on other conference calls. It did have an impact on us, along with currency fluctuations and a particularly strong prior year fourth quarter comparable. These factors combined to constrain the Company's 2014 fourth quarter performance.

As we enter the spring months, we were encouraged to see our business activity normalize. On the revenue side, we exceeded $4 billion in annual sales in fiscal 2014. Overall, we are pleased with the progress we made during the year to add scale to our business model and leverage our industry-leading platform. Looking back on fiscal 2014, we took a number of steps to both secure short-term results and set the stage for future success.

Importantly, we continued to make key investments in the business. We purchased NVS to expand our veterinary footprint; we reinforced our technology leadership position with our dental customers; we took steps to strengthen our medical business. As part of our capital allocation strategy and commitment to our shareholders, we significantly raised the dividend and executed on our share repurchase plan; and on the operations side of the business, our IT platform investments have allowed us to streamline parts of the organization and redeploy our resources to high potential initiatives. All of these moves stem from the strategic plan that we rolled out to our leadership group almost a year ago. We will continue to execute against that plan. It guides our decision making and priorities.

Now let's take a look at our operational performance in the 2014 fourth quarter and full year, starting with Dental. This business, which accounts for just under 60% of our total sales, reported fiscal 2014 fourth quarter sales down approximately 1.5% on a constant currency basis to $622.8 million versus the year ago quarter. Contributing to Dental sales in the quarter were slight gains on a constant currency basis in consumable product sales and solid growth in basic equipment sales. Notably, this was our second quarter in a row of strong Dental core equipment sales.

While technology sales were down in the fourth quarter, this is against excellent performance in the year ago quarter and we remain confident in the underlying strength of our technology and services platform. Our fiscal fourth quarter Dental results were also impacted by unfavorable Canadian currency fluctuations and their effect on pricing in that geography.

Patterson Dental is poised to continue to capitalize on the growing digital trend, and we continue to offer new radiography and CEREC CAD/CAM technologies, along with Patterson's unmatched sales, service and support offerings. During fiscal 2014, our North American CEREC user group base grew in the high single digits and now totals over 15,000 dentists. The growth prospects for our technology offerings, combined with the fact that there is considerable opportunity for dentists to invest in their practices, position us well going forward.

Moving on now to Patterson Veterinary, which comprises nearly one third of total sales. Fourth quarter sales of Patterson Veterinary unit increased over 77% from the prior year period to $361.8 million. US sales rose to $205.8 million and included a nearly 25% increase in equipment sales. In the US, we saw a slight decrease in consumable veterinary sales of medications and supplies, driven by weather-delayed flea and tick season. Strong growth in equipment sales reflects successful investments in partnerships with our equipment manufacturers and Patterson's best-in-class service and support model. Our performance represents the third consecutive quarter of double digit growth in equipment sales.

In the quarter, we continued to execute against our strategy to be a national provider of veterinary equipment and services. We had another quarter of strong contributions from NVS, our UK-based veterinary business. Our strategy for growth is to increase both our equipment and technical service offerings to take advantage of the favorable marketplace dynamics we are seeing. As pet ownership and the dollar amount people invest in veterinary care for their pets grow, veterinarians will require sophisticated equipment and capabilities in their clinics and hospitals to meet this market need.

Turning now to Patterson Medical, our rehabilitation supply and equipment unit, which now represents approximately 11% of total Company revenues. Sales in the fourth quarter were essentially flat with prior year levels after accounting for the planned divestiture of non-core product lines in the fiscal first quarter. Results included approximately a $0.06 per share of charge for the previously-announced restructuring, which was completed during the fourth quarter and reduced fiscal year results by $0.13 per share. From both a strategic and financial perspective, the divestiture was the right course of action. We can now focus our efforts on those rehabilitation areas with the highest growth potential. We also expect the restructuring will generate annual operational savings of approximately $2 million, or $0.01 per share, beginning in fiscal 2015.

We are excited about the new leadership in this division and the approach they are taking to reposition the business in our selected markets. We continue to be encouraged by this business's potential, given our substantial industry leadership, as well as our extensive branded and proprietary product and service offerings. Patterson Medical is poised to capture additional market share as conditions improve.

Next, I would like to update you on our information technology initiative, which crosses all three businesses. As we've previously stated, we've undertaken this effort in order to support the Company's future growth, further enhance the customer experience and secure productivity gains going forward. We are now well into our second year of this initiative, which we see as a five-year effort to overhaul our primary systems. We are taking a phased approach and are currently in the design and blueprinting stage of our IT investment. We will update you in the coming quarters as we begin piloting and implementation.

We believe that we have already started to benefit from certain of our technology improvements. Specifically, our progress includes making substantial enhancements to our Dental and Veterinary websites that make it easier for our customers to do business with us. Patterson is now a stronger and more efficient ecommerce player. That has helped us serve our customers and enhance our sales and marketing efforts.

Also during fiscal 2014, we completed the Company-wide rollout of a new sales tool called Pat Edge that quickly and concisely puts more market and customer information in the hands of our sales representatives. This is one more way that we have continued to reinforce our already strong customer service offerings. Our information technology investment is critical to improve scale in our business platform and provide Patterson with the flexibility to adjust as opportunities warrant in order to accommodate growth. Our customers will continue to benefit from improvements as we see—as we further execute on this strategy.

So looking ahead to 2015, we enter the year with a conservative view of our markets due to the relatively mixed performances in global economies. We expect conditions in our markets to be pretty much the same as they were in fiscal 2014. That said, we are confident in our ability to execute in any economic environment. With a streamlined and more efficient organization, we believe we have positioned Patterson for the future, and we continue to be bullish on the long-term prospects for our Company. With that as a backdrop, we are setting our fiscal 2015 earnings per share guidance range from $2.20 to $2.30 per diluted share. This represents a 5% to 10% growth from fiscal 2014 EPS of $2.10 per diluted share.

Now I'll ask Steve to review the financials. Steve?

Steve Armstrong *Executive Vice President, Chief Financial Officer and Treasurer*

Thank you, Scott. As Ann mentioned earlier in the call, my comments will focus on our adjusted results, which exclude the impact of the restructuring charges for the Medical segment. In addition, for comparative purposes, the operating metrics will generally include the results for NVS.

The impact of foreign currency exchange was greater this period than recent experience, which is why Scott provided certain growth amounts for sales on a constant currency basis. Our consolidated sales growth was negatively impacted by 50 basis points in the quarter and operations absorbed an unfavorable $1.2 million swing in currency transactions expense, predominantly from our Canadian operations. The sales growth in our Dental business absorbed nearly 100 basis points of unfavorable currency movement but also experienced gross margin compression due to the weakening of the Canadian dollar during the last half of the fiscal year. With a high percentage of products sold in Canada purchased in US dollars, our

Dental gross margins came under pressure in this market. In addition, our consolidated gross margins reflect the impact from the acquisition of NVS and the change in mix within the historic businesses during the quarter.

Despite a relatively soft sales quarter, we were able to improve our operating expense ratio through our expense management initiatives. Scott stated that we have taken steps to streamline the organization and redeploy assets to higher potential opportunities. To accomplish this, we took a $3 million charge in the quarter, principally for severance cost. A portion of the annual savings from this effort will allow us to fund some of our strategic initiatives, while the remainder is expected to improve our operating performance. Consistent with earlier quarters, fiscal fourth quarter 2014 operating expenses included approximately $2.5 million pre-tax, or $0.02 per diluted share of incremental cost, from our planned information technology investments.

On a comparable basis, our adjusted consolidated operating margin for fiscal 2014 improved by 20 basis points to 9.9%, which was one of our goals entering the year. This comparison excludes the operations of NVS, the impact of the planned information technology investments and the Medical restructuring charges. By segment, our fiscal adjusted operating margins were 10.9% for Dental, 5% for Veterinary and 13% for Medical. Note that operating margin for the Dental business excludes the incremental $10 million of information technology investments and Veterinary excludes NVS.

Our adjusted effective tax rate in the fiscal fourth quarter was 34.1%, a 20 basis point increase from the prior year, due primarily to favorable items in the year ago period. Looking ahead, we anticipate an annual tax rate of approximately 35% for fiscal 2015. This will be in line with our annual rate for fiscal 2014 after excluding the unfavorable impact of the restructuring costs. Not including NVS, our DSOs increased four days to 46 days for the fourth quarter, while inventory turns were 7.2 compared to 7.1 last fiscal year. The majority of our balance sheet changes result from the NVS acquisition.

Three additional items of note on the balance sheet, beginning with accounts receivable. Due to the timing of sales within the quarter and the relative change between March and April volumes year-over-year, our accounts receivable increased approximately $35 million. Second, as we noted in earlier releases this year, our Dental equipment inventories have increased year-over-year as we rebuilt our CEREC inventory from last year's depleted levels following the introduction and production ramp up of the Omnicam product during fiscal 2013. And lastly, we deployed our cash reserves to pay down the advances under our revolving credit facility used to fund the acquisition of NVS earlier this year. You may recall that we had drawn $135 million on our revolver to originally fund NVS. We will reevaluate the need to place a longer-term component of debt for this acquisition early in calendar 2015, as part of the refinancing of the $250 million tranche of debt that matures in March of 2015.

In the fiscal 2014 fourth quarter, our cash flow from operations totaled $46 million compared to $120 million in the year ago period. This decrease primarily resulted from the increase (inaudible) accounts receivable I mentioned previously, the timing of settlements within our equipment financing business and the timing of accounts payable disbursements between this year's fourth quarter and the prior year's quarter. We expect these timing matters will turn in fiscal 2015 such that next year's cash generated from operations should exceed earnings by a comfortable margin.

We continued to execute on our capital allocation strategy by returning cash to our shareholders. During the quarter, we returned approximately $20 million to our shareholders in dividends, and for the year, we returned over $85 million. In March, the Board of Directors increased our regular quarterly dividend by 25% to $0.20 per share from the prior quarterly rate of $0.16 per share. This increase demonstrates our confidence in Patterson's ability to generate growing cash returns on our business investments and growth opportunities.

During the fourth quarter, we repurchased approximately 1.2 million shares of our common stock with a value of $49 million, leaving approximately 22 million shares available under our current authorization. In fiscal 2014, we repurchased a total of 2.4 million shares with a value of approximately $97 million.

Our capex in the fourth quarter totaled $10 million and included payments for normal replacements, as well as the ERP project. For fiscal 2015, we are currently estimating capex of approximately $45 million. Over half of this amount is directly related to the ERP system, with this year's estimate to be the largest single year of spending on that project.

On a final note, earlier in the call, Scott gave you our EPS guidance range of $2.20 to $2.30 per diluted share for fiscal 2015. The base assumptions we used to build that range include stable North American and international markets with conditions similar to fiscal 2014, no impact from share repurchases that may occur during the year, the long-term extension of $250 million of debt that is due in March and no material acquisitions during the year. In addition, we do not—while we do not provide quarterly guidance, since we operate the business with a longer-term view, we would like to provide you with a few items to consider as you model our fiscal 2015.

First, we have slightly more than one quarter of operations from NVS to grandfather into our results. This impact is expected to be similar to what we had reported for the past several quarters. Next, with the Medical business restructuring now complete, with the sale of the remaining two product lines that had been identified, this business will have a modest revenue headwind of approximately 4.5% for all of fiscal 2015 resulting from these divestitures. Several of the expense reduction initiatives we undertook in fiscal 2014 more heavily impacted the latter half of the year. Specifically, we adjusted the ESOP expense estimate in the third quarter, while we took a $3 million charge in the fourth quarter. Also, as a consideration for the second half of the year, our guidance does not anticipate a winter as severe as we experienced this year.

A final reminder is that a significant portion of our operating expense structure is fixed or semi-variable in nature. Because sales levels tend to be higher in the second half of the year, we generally gain more expense leverage in that period, with our first and second quarter operations not improving at a rate that would be expected for the entire year.

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

Scott Anderson *Chairman, President and Chief Executive Officer*

Thanks, Steve. As we enter fiscal 2015, we believe we can capture market share as we continue to exceed our customers' expectations. Our very strong strategic partnerships continue to grow and strengthen across all of our businesses. Wrapped with Patterson's unparalleled service and support platform, we continue to receive very positive feedback from our customers.

Additionally, we are proud to have been honored earlier this year when Patterson Companies was named to the 2014 Forbes list of 100 Most Trustworthy Companies in America and believe that this further validates our business model. Patterson is one of only four companies in 2014 that have appeared on the list three times in the past seven years. Congratulations to all of our employees who embraced our core values and are responsible for this recognition and our fantastic Company culture.

So before I open up the call for your questions, let me reiterate what gives us confidence in the new fiscal year. It stems from the fact that in the prior year, we set the table for growth going forward. In addition to purchasing NVS, we reinforced our leadership position in technology with our Dental customers. We restructured the Medical business and hired new leadership to focus on the most attractive segments. As part of our capital allocation strategy and commitment to our shareholders, we significantly raised the dividend and executed on our share repurchase plan. Our IT platform investments have allowed us to streamline parts of the organization and redeploy our resources to high potential initiatives.

Finally, we also took steps to augment our already strong Board of Directors. We added two highly accomplished executives to the Board recently – Neil Schrimsher, who is President and CEO of Applied Industrial Technologies, and Sarena Lin, who serves as Corporate Vice President of Strategy and Business Development for Cargill. Both bring broad-based experience and a fresh perspective. We know that with Neil's deep wholesale distribution and executive leadership experience and Sarena's vast global and strategic management expertise, our Board will be an even greater resource for Patterson's shareholders and management. We believe that Patterson is well positioned for the future.

Now Steve and I would like to take any questions. Danielle?

Operator

Thank you, sir. Ladies and gentlemen, we will now conduct a question and answer session. But as a reminder, if you'd like to ask have a question, please press star, one on your telephone keypad, and if you need to withdraw your question, please press star, followed by the two; and if anyone is using speaker equipment, please lift your handset before you make your selection. One moment for our first question.

Our first question is from the line of Kevin Ellich with Piper Jaffray. Please go ahead.

Kevin Ellich *Piper Jaffray – Analyst*

Good morning, guys. Just a couple of questions. I guess, first off, Steve, on the ESOP expense, did you say you took a $3 million charge in Q4?

Steve Armstrong *Executive Vice President, Chief Financial Officer and Treasurer*

No, that had to do with the repositioning or fine-tuning we did to the staffing throughout the organization, Kevin. The adjustment for the ESOP was in the third quarter.

Kevin Ellich *Piper Jaffray – Analyst*

Got you, so could you give us what the ESOP funding was in Q4, and I guess, what you guys are baking in for 2015?

Steve Armstrong *Executive Vice President, Chief Financial Officer and Treasurer*

Yes, we're looking at about a 3% contribution level for the employee base, the eligible employee base, which is predominantly the US-based employees; should be somewhere between 10 and $12 million, Kevin, and in the fourth quarter, I believe that we recorded something around 2 million—little over $2 million of expense in the fourth quarter.

Kevin Ellich *Piper Jaffray – Analyst*

Got it. Okay, that's helpful. Then, Scott, just going back to the Dental segment, consumables came in kind of light versus our expectations. What do you guys—what do you think 2015 is going to look like? Do you think it's going to be very similar, or do you think we'll see a little uptick?

Scott Anderson *Chairman, President and Chief Executive Officer*

Well, I'll just answer the weather question first, because there's—obviously, there's been a lot said publicly about it. You know, it—the Midwest, Ohio Valley, northeast, southeast were particularly hard hit. It probably had a—you know, it's tough to quantify but probably 100 to 200 basis point impact on our consumable number, and I would say the severity of it really disrupted the supply chain and selling cycle in the quarter. That being said, we saw the business normalize across all business lines and in all three businesses in April and have seen sequential improvement into March. So I would say from a market growth perspective, I would expect the market growth to be close to GDP, and it would be our expectation to exceed that on the consumable end.

Kevin Ellich *Piper Jaffray – Analyst*

Got it, okay. Then could—since you gave us the weather impact for Dental, could you give us the impact for the Vet consumables, which was pretty weak as well?

Scott Anderson *Chairman, President and Chief Executive Officer*

Yes, Vet's a little different and I think it's consistent with what our main competitors had said. You had two impacts on the veterinarians. One, you know, you had visits impacted with sick pets; but two, you also had a lag on the flea and tick season, and I would say, just as we had predicted when we came out of April, we're seeing nice growth into May.

And I just want to add one piece to Steve's on the ESOP, because I think it's important to sort of put that in context. You know, one of the things we always evaluate on our compensation strategy is the performance of the business and really, the strength of the underlying markets, and our strategy over the past five years has been, like many companies, have been very conservative on increasing short-term cash compensation, and at Patterson, we've had retirement programs that really have been on the high end of market norms. So going into, you know, the coming years, our strategy really is around rebuilding that short-term compensation at market, or above market levels, and then we will determine the retirement program growth by Company performance against the market, and obviously, things that we're doing to improve productivity and efficiency all help us support that compensation philosophy.

Kevin Ellich *Piper Jaffray – Analyst*

That's helpful. Two last quick ones. So on the Vet equipment side, we've seen—you know, it's a pretty low base but seen some pretty good growth. Are there any specific products or categories you can call out that's driving that growth? Then also on the IT initiative, are you seeing an increase in ecommerce ordering, or I guess, how are you going to measure the success of those investments?

Scott Anderson *Chairman, President and Chief Executive Officer*

Yes, two things. On the Vet equipment, we've seen nice growth across the board, strong growth in digital, as well as just more traditional equipment. We've done a great job with programs throughout the country, on sitting down with our Veterinary customers, on helping them realize their dreams and building new offices, so it really is a nice balance to the portfolio, and more than anything, I'm very proud of our Veterinary team. I was just with all the sales people at our national sales meeting last week in Fort Worth, and they're really embracing the strategy and seeing that they can really change the lives of their customers and really help their veterinarians deliver great care and have a partner that stands behind them that not only can sell great things but, more importantly, can fix and service them and keep them up and going. So you're right; it's a small percentage of our business today, but it was—it's a strategy that the Vet team is executing nicely against.

What was the second part of your question again?

Kevin Ellich *Piper Jaffray – Analyst*

The IT initiative, (cross talking) yes.

Scott Anderson *Chairman, President and Chief Executive Officer*

Yes, on ecommerce, we—you know, Patterson's been a pioneer in ecommerce going back 20 years, even to when I was a sales person in San Francisco where we were getting orders electronically from our customers. In our Dental business, over 80% of our consumable revenue stream comes to us electronically. But we realized you need to continually make your website more and more robust, better images, better search capabilities and, you know, we're excited about the growth on that side. On the Vet side, I think that's probably what has been really exciting, is we used the back-end technology that we used on our Dental website to then replicate it on the Veterinary side, and we've seen, you know, some dramatic growth in our web traffic over the last year; and we believe it's that combination of great electronic commerce, easy to do business with your customer and then add in, you know, great sales expertise and technical serve expertise that is a winning combination for the professionals we call on.

Kevin Ellich *Piper Jaffray – Analyst*

Sounds good. Thanks, Scott.

Scott Anderson *Chairman, President and Chief Executive Officer*

Thanks.

Operator

Our next question is from the line of Robert Jones with Goldman Sachs. Please go ahead.

Robert Jones *Goldman Sachs – Analyst*

Thanks for the questions. Just, you know, going back to the Dental equipment, Scott, coming into the year, I think you guys were looking for high single digit growth in that category. Clearly, as we close the books here, looks like it's finished down slightly year-over-year. I just wonder, you know, if you could talk about what the major drivers were of that shortfall? Then I guess, more importantly, as you look out to '15, any thoughts on the key growth categories within dental equipment, you know, specifically maybe around CAD/CAM and how you're thinking about imaging?

Scott Anderson *Chairman, President and Chief Executive Officer*

Yes, sure. Great question, Bob. I would say, starting on the core equipment side, you know, we saw a nice pickup in the traditional core equipment in the last six months of the year but, for the full year, the category was essentially flat, and that category has been flat, you know, really going back to 2010. So while encouraged, I don't think we're ready to call a breakout in traditional equipment. I would say it's a good sign to see not only our growth but to see industry growth in this category.

Talking about total market share and equipment growth, I think it's important to put a few things in perspective. One is, in this quarter, we were up against really three really strong consecutive years in equipment. Going back, we were up 11%, up 6% last year, up 14% and this year slightly down, so it's clear from a market share perspective that we've taken share over that time.

With regards to the technology piece, and I think that's important to take a long view on as well, and to me that would include CEREC, digital sensors from Schick, digital pans (ph) and (inaudible) machines, we have said repeatedly that this category in total is a 10% grower over time, and there will be times where you exceed that and times where you come under that, and if you go back and look at our results over the last five years, that is exactly what we have produced, roughly 10% compounded annual growth rate in technology. I would say these products, without doubt, have the opportunity for the foreseeable future to grow to a 10% rate over time, and I—the CEREC and CAD/CAM category, particularly in my opinion, could accelerate at a pace much quicker. So the fact that we've delivered 10% compounded growth in technology against a pretty tough macroeconomic background, I think, is one of the things that gives us so much confidence about really the digital transformation opportunity in front of us, but more importantly, in front of our customers.

Robert Jones *Goldman Sachs – Analyst*

No, I think that makes sense. I guess, Scott, just one follow-up, maybe taking a step back, you know, it sounds like you guys—the guidance is really calling for conditions to be similar to what we saw in '14. This obviously implies the market growth that you guys are assuming is still well below that normalized 4 to 6% growth range. Some of your competitors, I think, are calling for a little bit better of an environment in '15—you know, in '14 versus last year, particularly in the US. I'm just curious, you know, what factors you're seeing and what keeps you more cautious on the health of the underlying markets?

Scott Anderson *Chairman, President, and Chief Executive Officer*

Well, I think what we really wanted to do, Bob, when we set up guidance was to take a conservative approach to the underlying markets because we did not want to build a plan with an assumption of economic tailwinds. So what we've done and how we've positioned the Company going into the year and the moves we've made to be able, you know, really to make a commitment to deliver performance even in a flat underlying market is what we're saying. You know, do we want our markets to improve? Absolutely, and if that happens, there would be upside to where we've put out our year. But really, that was our strategy on how we built the year from both a revenue and profitability standpoint.

Robert Jones *Goldman Sachs – Analyst*

Got it. Thanks for your thoughts.

Scott Anderson *Chairman, President and Chief Executive Officer*

Thanks, Bob.

Operator

Our next question is from the line of John Kreger with William Blair. Please go ahead.

John Kreger *William Blair – Analyst*

Hey, Scott, thank you. Maybe just a quick follow-up on the dental equipment market. How is the pipeline at this point? And within that pipeline, are you seeing it dominated more by upgrades, particularly around CEREC, or more from new users?

Scott Anderson *Chairman, President and Chief Executive Officer*

Yes, I would say, John, you know, we continue to see very high customer interest in CEREC CAD/CAM, with the Omnicam leading the way as the product of choice. We have competition in the market, and as we've talked about before, we think viable competition is a positive sign for the long-term growth of the category and that more folks talking about chair-side CAD/CAM, the closer we'll get to a tipping point for that technology. So we're encouraged, one, by the core equipment trends and are very careful not to call a breakout, but I would say the future for digital technologies, when you talk to customers and the feedback we got through the spring selling season at Dental meetings is—you know, as I said before, these categories have a long runway of double digit growth opportunities ahead of them.

John Kreger *William Blair – Analyst*

Great, thanks. Then a second question relating to NVS. It did a lot better than what we were expecting. Can you comment on what drove the outperformance, if it beat your expectations as well, and what sort of organic growth do you see for the UK vet business once you anniversary the purchase?

Scott Anderson *Chairman, President and Chief Executive Officer*

Yes, you know, I think we're very pleased with the integration, and probably most importantly, the cultural integration of NVS and how our management team in the UK just hit the ground running, you know, right after the announcement was made in August, and George Henriques, our President of our Veterinary Unit, I think, has done a great job in helping connect information that will help that business leverage marketing programs and other things we have here in the States. They have exceeded on the revenue line but also operationally. I would say, from a growth perspective, we would say the underlying characteristics are fairly similar to the States, with the underlying market growing 3 to 4%, John.

John Kreger *William Blair – Analyst*

Great. Thank you.

Operator

Our next question is from the line of Robert Willoughby with Bank of America Merrill Lynch. Please go ahead.

Elizabeth *Bank of America Merrill Lynch – Analyst*

Hi, good morning. This is Elizabeth in for Bob today. What's a reasonable timeframe for growth in the Medical business, and would the proceeds from a potential divestiture be more productively applied to maybe share repurchases?

Scott Anderson *Chairman, President and Chief Executive Officer*

Yes, Elizabeth, I would say we would look—as the next 12 to 24 months and the challenge for the Medical team is to grow that business, we feel like it's positioned well. The underlying markets, we feel, will be stable, probably flat this next year and outside of a government action of contraction or austerity, that company is focused on growth. You know, as a reminder, it's our highest margin business, it's a great contributor to profitability and it does drive cross-Company synergies, so one of the things we've talked about before is we always evaluate how the pieces of the Company fit together and how we can leverage that scale for the benefit of our customers but also the benefit of our shareholders. So we still have a very positive outlook for that franchise. We've talked about it before. It's five times nearest its largest competitor. We feel it's in a great space, physical therapy and its attachment to an aging population and how it'll—that industry will be impacted by future demand gives us confidence that having it part of the Patterson portfolio and having some patience to have that investment pay off is the right thing for our shareholders.

Elizabeth *Bank of America Merrill Lynch – Analyst*

Okay, and what about the 250 million in short-term debt? Would you seek to maybe raise more than you're retiring there and use the excess to buy back stock?

Steve Armstrong *Executive Vice President, Chief Financial Officer and Treasurer*

Elizabeth, this is Steve. We're—our intention today is to refinance that $250 million that comes due in March of '15, push it out probably another 10 years at least; gives us good balanced capital structure for the business. Could we take on more debt? Absolutely. I talked a little bit in my prepared remarks about the possibility of at least funding what we paid for NVS. Short of—I mean, our priorities continue to be to invest back in the business first, share repurchase sort of being the third leg of the stool, with the dividend being stuck in the middle, and depending on market conditions and a lot of things (ph), whether it's acquisitions, that's where we're going to look first. But if we can't deploy the cash appropriately and if it looks—the stock market gives us an opportunity to do it, we'd be much more aggressive on a share repurchase program.

Elizabeth *Bank of America Merrill Lynch – Analyst*

Okay. Then just a quick one. What were the reasons behind the DSO build?

Steve Armstrong *Executive Vice President, Chief Financial Officer and Treasurer*

Primarily that spike in the receivables we saw at the end of the year was more of a timing issue, where April sales were quite a bit—a little more robust than early in the period, as Scott alluded to in his comments, and we just couldn't turn the cash fast enough to hold down that receivable balance.

Elizabeth *Bank of America Merrill Lynch – Analyst*

Okay, that's helpful. Thanks very much for the question.

Steve Armstrong *Executive Vice President, Chief Financial Officer and Treasurer*

Thank you.

Operator

Our next question is from the line of Jon Block with Stifel. Please go ahead.

Jon Block *Stifel Nicolaus – Analyst*

Great, thanks. Good morning. Scott, maybe the first one's a clarification, and my apologies. I might have misheard you, but you commented on April and then you said things improved sequentially, but I think you called out March. So just to clarify, did you say Dental trends had improved further into May? Can you circle back on that one?

Scott Anderson *Chairman, President and Chief Executive Officer*

Yes, Jon, thanks for the pickup. My intent was to say that the consumable business sequentially improved, not only in April but then in—and it has in May as well.

Steve Armstrong *Executive Vice President, Chief Financial Officer and Treasurer*

Yes, (inaudible).

Scott Anderson *Chairman, President and Chief Executive Officer*

Yes. (Cross talking) so—were so shell-shocked by the winter that we still think we're in March.

Jon Block *Stifel Nicolaus – Analyst*

Fair enough. Then Scott, just to take a step back, if you can just sort of detail how things played out throughout last quarter? In other words, maybe I'm just a little bit surprised by the magnitude of the miss (ph). You know, you got on the call in late February, you spoke a couple of times to a decent backlog. I know that was more specific to basic, but still, a decent backlog, and then you're referencing that things picked up in April. So what played out throughout March maybe that led to, you know, the extent of the revenue and EPS shortfall at the end of the year?

Scott Anderson *Chairman, President and Chief Executive Officer*

Yes, late February was tough. March continued to be tough, and then, you know, I'm actually very proud of our US and Canadian employees on how they fought back in April, because against a very big April – and Steve just talked about it in the last question – in terms of our DSO, we put up actually the largest April we've ever had in the Company, and I hate to talk about single months. So sort of the magnitude of the hole that we got into in March we did not anticipate when we were sitting there in February. It's a little easier to call out backlogs in the core equipment side of the business because, generally, those are projects with longer selling times and install times, so you have a little more clarity around the core business.

The technology side of the business, as we've talked about many times, is a shorter sales cycle, and we really feel like we had a disruption in the selling cycle, you know, throughout late February and March, and I would say we had some issues in Canada that have been rectified and they're off to a good start, particularly on the CEREC side. Probably one area that underperformed that I would say we're disappointed in was the yield on the trade up of the CEREC was lower than we had anticipated and, you know, sort of the silver lining in that is what we found is there's a very high level of satisfaction amongst our Bluecam users and many customers who had signed up to upgrade to Omnicam have decided to continue to use their Bluecam. That being said, 95% of the new users we're selling – and we had a very good quarter for CEREC in new users – are all Omnicams, so we sit here, I think, with two great products, the best product in the market at 80,000 and the best product at the high end.

So I would say those are some of the factors that sort of led to the shortfall in the quarter, Jon.

Jon Block *Stifel Nicolaus – Analyst*

Okay, great. That was very helpful. I appreciate the color. And last one, just to shift gears over to Vet, the contribution from NVS was big, but just isolating the US, you did see a decel from sort of 7% to one and change. I guess both quarters had a bad month of weather, right, January last quarter, February this quarter. So has anything changed dynamics in Vet? And then there has been some chirping about, you know, the competitive landscape between distributors and maybe you can just talk to your relationship on the exclusivity with Idexx? Thanks, guys.

Scott Anderson *Chairman, President and Chief Executive Officer*

Yes. I think the underlying fundamentals of the Vet business are solid. You know, I think just the dynamics around weather impact that business a little bit harder, but that's a one-time event that goes away, and we wouldn't see—you know, we wouldn't change our positive outlook on the vet space at all. From a competitive standpoint, you know, I think you have three strong strategic players that are looking to do the same thing; that's bring great value to our customers, and we're excited to compete against them every day.

I would say on the Idexx front, we continue to be very pleased with our relationship with Idexx. We think they're a great company that drives innovation, and as we've talked about, you know, going back now almost two years, it was always our intent that we wanted to be a strategic partner with them, and we're excited about some of the new products that they're going to launch here in the next 12 months.

Jon Block *Stifel Nicolaus – Analyst*

Great. Thanks for your time, guys.

Scott Anderson *Chairman, President and Chief Executive Officer*

Thanks, Jon.

Steve Armstrong *Executive Vice President, Chief Financial Officer and Treasurer*

Thanks, Jon.

Operator

Our next question is from the line of Michael Cherny with ISI Group. Please go ahead.

Michael Cherny *ISI Group – Analyst*

Morning, guys. Along those lines, on the competitive dynamics, on particularly the vet market, but I guess also across the entire book of business, can you talk about how pricing trends are moving for consumables? You talked about a healthy market from a competitive perspective in vet, but are you seeing any type of pricing pressure in any business? Are you able to take price in any specific line? I'm just trying to get a general sense of what you're seeing across your portfolio.

Scott Anderson *Chairman, President and Chief Executive Officer*

Morning, Mike.

Michael Cherny *ISI Group – Analyst*

So along those lines on the competitive dynamics, on particularly the vet market but I guess also across the entire book of business, can you talk about how pricing trends are moving for consumables? You know, you talked about a healthy market from a competitive perspective in Vet, but are you seeing any type of pricing pressure in any business? Are you able to take price in any specific line? I'm just trying to get a general sense of what you're seeing across your portfolio.

Scott Anderson *Chairman, President and Chief Executive Officer*

Yes, Mike, great question. I would first couch it as I believe we're in very rational markets. That being said, if you go back over the last five years, these markets have seen low underlying market growth, which I think increases competitive pressures across the board. But that being said, I don't see any irrational behavior in the marketplace, and you know, the real focus is how do we help our customers across all three businesses drive their future growth? So, you know, I believe we still have the ability across the board to take price, both at a manufacture and distribution level. I think your price increases are going to be much more muted, though, this year versus last year given the impact of the medical device tax, and that'll create a bit of a headwind.

Michael Cherny *ISI Group – Analyst*

Okay, thanks. Then, you know, Sirona announced just recently—I think it's recently at least, the next CEREC major anniversary celebration. As you think about that, given in the past you've been a venue for them to launch new products, is there any thought into how that factors into your full year guidance? I know you don't give quarterly guidance, obviously as you noted earlier, but how some of their product introductions, or the potential product introductions will factor into your growth outlook?

Scott Anderson *Chairman, President and Chief Executive Officer*

Well, you know, what we love about Sirona is their innovation pipeline is deep and I think they've got an incredibly talented group of R&D folks in (inaudible). We don't comment on what's in their pipeline or what their schedule of innovation is. Obviously, next year is traditionally a big year as an IDS year. We're very focused in the Patterson business on presenting the products we have, and we feel we've got great breakthrough products, really, in the Omnicam and just an amazing product in the Bluecam at an $80,000 price point. So I would say there's no new product innovation built into our guidance.

Michael Cherny *ISI Group – Analyst*

Okay. Thanks.

Operator

Our next question is from the line of Glen Santangelo with Credit Suisse. Please go ahead.

Glen Santangelo *Credit Suisse – Analyst*

Yes, thanks for taking the questions. Hey, Scott, I just wanted to follow up. I mean, there's obviously been a lot of questions regarding the growth in Dental and the growth in Vet, and I appreciate the comments on weather, but if I—I just want to make sure I'm interpreting what you're saying correctly. You seem to suggest that March got incrementally a little bit better from February and maybe April, and maybe even May, you know, continued to get a little bit better, and how should we think about the growth within those segments? If I look over the last, you know, sort of four quarters, looking back over the last year, it kind of seemed like Dental in that 2 to 3.5% range and maybe even a little bit stronger organically on the Vet side. Is that kind of roughly where you'd say we're trending today?

Scott Anderson *Chairman, President and Chief Executive Officer*

Yes, I think, Glen, you pretty much nailed it, and I think we talked about seeing real no marketable improvement to that. Just for clarification, the sequential improvement was in April and May. I misspoke earlier. Both February and March were tough months.

Glen Santangelo *Credit Suisse – Analyst*

So when I look within the guidance that you put in the press release, and you say sort of stable North American and international markets, you mean sort of stable at those rates we're seeing in April and May, not February and March, obviously?

Scott Anderson *Chairman, President and Chief Executive Officer*

Exactly, but low growth. I mean, not the traditional 4 to 6% underlying growth. I would keep the underlying growth number closer to what you're seeing in the GDP number right now.

Glen Santangelo *Credit Suisse – Analyst*

So, Steve, maybe if I could just translate that through to margins, you know, when I look at the sort of midpoint of your guidance range, if we assume that we're seeing revenue growth rates in that sort of range we're talking about, it doesn't really feel like we're making any sort of heroic assumptions on the margin line, and given all the cost initiatives that you've kind of gone through in the last year, I'm wondering if you could just maybe put that into context for us a little bit in terms of what you're thinking with respect to profitability in fiscal '15?

Steve Armstrong *Executive Vice President, Chief Financial Officer and Treasurer*

Yes, I think there's a couple of items that I would mention, Glen. With regard to guidance, if you take out the impact of NVS, our guidance pretty much assumes another 20 basis points of improvement in our operating margin. We've done a lot to the organization over the last year plus to try to attack our expense structure with these low growth environments that Scott has alluded to and talked about, and—but we need some of that to reinvest in the business. We can't let it all just drop to the bottom line prudently. We—you could; you could harvest the business. We don't think that's the right thing for the long term. So some of what we have done to restructure the expense nature of the business we're putting back into the business through various initiatives to push us into the next decade of this organization.

Glen Santangelo *Credit Suisse – Analyst*

All right, that's helpful. Maybe, Scott, if I could just finish up with my last question, I think within the sort of, you know, the guidance, you seem to suggest—or in your prepared remarks, you said that there was some mixed performances in the different global economies. As you look at your business today, what percentage of your revenues are US versus international, and are there sort of any specific international markets that you think are sort of worth calling out, that you're maybe a little bit more concerned about or paying a little bit more closer attention to?

Scott Anderson *Chairman, President and Chief Executive Officer*

Sure, about one third of our revenues, Glen, are international and the predominance of that would be in the UK and Canada, and the UK business, particularly on the physical therapy business, as we've talked about, really went through a tough 24-month run with deep austerity cuts in that market. We feel that is behind us. So I think what's important to take away is, as we look out at the macro environment over the next 24 months and we see a lot of mixed signals, and we as a management team have said, you know, we're going to drive this business, we're going to drive strategies, we're going to do the right things for the long term, but we're going to drive operational performance regardless of what is happening in the underlying economies, and that's how we've set up the year internally with our business units.

Glen Santangelo *Credit Suisse – Analyst*

Okay, thanks for all the comments.

Scott Anderson *Chairman, President and Chief Executive Officer*

Thanks, Glen.

Operator

Our next question is a follow-up from Kevin Ellich with Piper Jaffray. Please go ahead.

Kevin Ellich *Piper Jaffray – Analyst*

Hey, guys, just a couple of quick follow-ups. First, looking at the segment margins, specifically in Vet, it looks like it was down about 100 basis points year-over-year. Was that primarily due to weather, or was there something else—anything else that impacted that?

Scott Anderson *Chairman, President and Chief Executive Officer*

Yes, I would not call out weather on that. I think it was predominantly around margin pressures from manufacturers, particularly as you had some new products re-enter the parasiticide market, so that's what put some pressure on their margins.

Steve Armstrong *Executive Vice President, Chief Financial Officer and Treasurer*

The other thing, Kevin, is it—they've been investing fairly heavily, both in their service capabilities and their sales force. I think they've added close to 30 sales people over the last 24 months, and so it takes a while to absorb those costs so it's going to have somewhat of a short-term impact on their operating performance.

Kevin Ellich *Piper Jaffray – Analyst*

Okay. So, Scott, you said products have been reintroduced, so I assume you're talking about Sentinel Spectrum then?

Scott Anderson *Chairman, President and Chief Executive Officer*

Yes.

Kevin Ellich *Piper Jaffray – Analyst*

Okay, got it. Then, you know, in the past, you guys gave us kind of your market growth outlook. Would you say there's anything that's changed on the dental consumable or equipment side of the business?

Scott Anderson *Chairman, President and Chief Executive Officer*

No, I'd just go through it. Once again, you know, we expect Dental consumables to grow at GDP over the next coming months. We would see the equipment market, both in dental and vet, the underlying market to be in the low single digits, and we would expect to grow faster than that. You know, I will absolutely stick with the fact that we see the technology opportunity as a double digit grower for the foreseeable future, and we'll accomplish that over a longer period of time.

Medical market, we would see as flat. You know, the only thing that could cause a change to that, I think, would be a government imposed contraction or austerity measures. So that's sort of the underlying assumptions we made as we've built out strategies for the year.

Kevin Ellich *Piper Jaffray – Analyst*

Got it. Then, Steve, did I miss—did you provide D&A guidance?

Steve Armstrong *Executive Vice President, Chief Financial Officer and Treasurer*

I did. I said about 45 million, Kevin, with about half of it going into the ERP project. We're in heavy—with the consultants, or the integrators now on staff, or on board, we'll be incurring a lot of cost on that project in fiscal '15.

Kevin Ellich *Piper Jaffray – Analyst*

Was the 45 million for capital expenditures, or that's depreciation and amortization?

Steve Armstrong *Executive Vice President, Chief Financial Officer and Treasurer*

I'm sorry, did you ask for D&A?

Kevin Ellich *Piper Jaffray – Analyst*

Yes.

Steve Armstrong *Executive Vice President, Chief Financial Officer and Treasurer*

I didn't give you a number on it, but it would be very similar to this year, Kevin.

Kevin Ellich *Piper Jaffray – Analyst*

Okay, got it. Thanks, guys.

Steve Armstrong *Executive Vice President, Chief Financial Officer and Treasurer*

Some growth there but very similar.

Kevin Ellich *Piper Jaffray – Analyst*

Okay.

Operator

Our next question is from the line of Steven Valiquette with UBS. Please go ahead, sir.

Steven Valiquette *UBS – Analyst*

Thanks. Good morning, guys.

Scott Anderson *Chairman, President and Chief Executive Officer*

Morning.

Steven Valiquette *UBS – Analyst*

I was also going to ask about Vet pricing, but it sounds like we've covered that. That's stable and still pretty good, so no real issue there. Really all my other questions have been asked, but the one I wanted to hit on, maybe just for a second here, is that as far as weather impact on the overall Company, you know, some of your peers were able to quantify some of the impact just based on number of days that distribution centers were closed in the quarter, so I was just curious if you had any of that data available, just to give a bit more color, or is that not really at your fingertips right now?

Steve Armstrong *Executive Vice President, Chief Financial Officer and Treasurer*

Well, we have it. I don't have the exact days in front of me, Steve, but I would say it's very similar to what some of our competitors reported in terms of number of days of closure and number of days of disrupted service from UPS, you know, and as I pointed out before, it was really Midwest, Ohio Valley, southeast, northeast and really, a lot of communities that aren't used to handling tough weather. But I would say very consistent in terms of what's been put out there in the public market in terms of disruption to both supply chain and selling cycle.

Steven Valiquette *UBS – Analyst*

Okay. Then I may have missed this, but did you guys provide an expected accretion number for NVS within the FY '15 guidance? I know the previous guidance was for, you know, $0.04 to $0.05 of accretion in the first year post-closing, but is there any—did you guys give any number for FY '15 specifically?

Steve Armstrong *Executive Vice-President, Chief Financial Officer and Treasurer*

Yes, we're still looking at that nickel of benefit from that.

Steven Valiquette *UBS – Analyst*

Okay, got it. Okay, great. Thanks.

Scott Anderson *Chairman, President and Chief Executive Officer*

Thanks, Steve.

Operator

Our next question is from the line of Jason Bednar with Robert W. Baird. Please go ahead, sir.

Jeff *Robert W. Baird – Analyst*

Hey, guys, good morning. This is actually Jeff. How are you doing today?

Scott Anderson *Chairman, President and Chief Executive Officer*

Jeff in for Jason?

Jeff *Robert W. Baird – Analyst*

Yes, Jeff in for Jason. Sorry, I was in meeting. I literally just got out of a meeting; I missed everything except Steve's question there, so I apologize. Look, you know, Scott, I know you're not going to like this question – I'll preface it with that up front – but you know, the questions I'm getting from investors today are, you know, where does the buck stop here? Where is the accountability? Is it (inaudible)—you know, I know you went through a round of layoffs on May 1st, but the business continues to struggle, it seems like. At least our perception from the outside is it continues to struggle. Does some of this accountability have to go all the way up to the senior levels on a segment-wide basis, or even further up? Just how are you thinking about the Board's opinion here, and generally, just about performance here that's continued to kind of struggle here the past couple of years?

Scott Anderson *Chairman, President and Chief Executive Officer*

Well, Jeff, I think your question's a little over the top in terms of our performance versus our peers. You know, we really look at our Company as a leader in both profitability in industries and efficiency. We are doing things strategically with the full support of our Board and executing in the field, and an attempt to accomplish many things in a lower growth environment and are absolutely committing to making these investments to drive our long-term strategy. You know, so we see FY '15 as a year where we will deliver operating margin performance even in a potential lower growth market. If we get some tailwind from our market, you know, we will see the benefit from that, but I couldn't be more confident in the people in the Patterson Company, and I think our long-term supporters are going to benefit dramatically from the performance of this Company over time.

I wish you would have listened to the whole call.

Jeff *Robert W. Baird – Analyst*

All right, I—you know, I hear you on (cross talking).

Scott Anderson *Chairman, President and Chief Executive Officer*

And I wish you would have listened to the whole call.

Jeff *Robert W. Baird – Analyst*

Yes, no, I—and, you know, that's my fault and I couldn't get out of a meeting I was in, so I do apologize for that. But it does feel like, whether whether I look at your performance versus peers on the consumable side, on the equipment side, if we're talking Dental, you know, it feels like the Medical business continues to be somewhat disintermediated anyway. It does feel like there's some secular issues here that aren't just one quarter, one year in the making.

Scott Anderson *Chairman, President and Chief Executive Officer*

I would ask you to go back and listen to the call, Jeff. Thanks for your question.

Jeff *Robert W. Baird – Analyst*

Thank you.

Operator

There are no further questions at this time. I'd like to turn the call back over to management for a brief wrap up.

Scott Anderson *Chairman, President and Chief Executive Officer*

Thanks, Danielle. First of all, I'd like to thank all the Patterson employees for the hard work and the things we've accomplished to really position the Company going forward. During the fourth quarter, we made progress on our strategic initiatives to offer best-in-class products and innovative services in order to fuel growth. As a result, we were able to maintain our market leadership position in a particularly challenging selling environment. We're focused on capitalizing on the growth opportunities that lie ahead as we continue to enhance our products and services, and we look forward to updating you in August on our first fiscal quarter. Thanks, everyone, and have a great summer.

Operator

Ladies and gentlemen, this concludes the Patterson Companies Fourth Quarter Fiscal 2014 Earnings Announcement conference call. This conference will be available for replay today after 11:00 a.m. through May 29th at midnight, and you may also access the replay system by dialing 1-800-406-7325 and enter access code of 4682606. Thank you all for your participation. Everyone now may disconnect.