

PATTERSON COMPANIES, INC.

**Moderator: John Wright
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9:00 am CT**

Operator: Good day, everyone and welcome to the Patterson Companies Second Quarter Fiscal 2016 Earnings Announcement. Today's conference is being recorded. At this time, I would like to turn the conference over to John Wright. Please go ahead.

John Wright: Thank you, Kim. Good morning, everyone, and thank you for participating in Patterson Companies Fiscal 2016 second quarter earnings conference call. With me today are Scott Anderson, our Chairman and Chief Executive Officer; and Ann Gugino, Executive Vice President and 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, which could cause actual results to materially differ from those indicated in such forward-looking statements, 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 the fiscal 2015 and 2016 second quarters, which exclude the impact of one-time transaction related costs, deal amortization, and foreign currency. Additionally, our discussion of results is adjusted to reflect the reclassification of Patterson Medical as a discontinued operation. A reconciliation of our reported and adjusted results can be found in this morning's press release.

Today's earnings announcement and our discussion also reflect the realignment of our reportable segments. In addition to our Dental segment, as we previously described, our companion Animal business and our new Production Animal Distribution business are reported as the Patterson Animal Health segment. Our other and more centralized shared functions that were previously embedded within the Dental segment are now being reported in a separate corporate segment.

This call is being recorded and will be available for replay starting today at noon Central Time for a period of one week.

Now I'd like to hand the call over to Scott Anderson.

Scott Anderson: Thank you, John. Welcome everyone to today's conference call. We have reached the midway point in a pivotal and exciting year for Patterson Companies in each of our two businesses, Patterson Dental and Patterson Animal Health. Since we completed the acquisition of Animal Health International in June, we have taken a thoughtful and disciplined approach to bring the Production Animal business together with our Legacy Companion Animal operations. As all of you know, meeting key milestones is critical to successful integration.

We are pleased to say that we achieved several of these milestones in the fiscal 2016 second quarter. During the quarter, we made substantial progress on the headquarters relocation of our new Animal Health segment and are well on our way to consolidating the segment's functions in Greeley, Colorado. We integrated and solidified our Animal Health Leadership Team. It's worth

emphasizing that the combination of Patterson Veterinary with Animal Health International has led to what we believe is the strongest Leadership Team in the animal health industry. We completed the integration of our Production and Companion Animal sales forces. We've also made significant progress on our IT system conversions. Let me assure you that we are 100% focused on serving our customers.

Of course, we have more milestones ahead of us. With these accomplishments under our belts, I believe that Patterson Companies is heading into the second half of fiscal 2016 with the strong ability to execute and grow with momentum.

In terms of the Company's financial performance during the quarter, consolidated sales from the continuing operations rose 44% on a constant currency basis to \$1.4 billion, reflecting the Animal Health International acquisition. Our adjusted earnings from continuing operations grew 27% to 56 cents per diluted share.

Let me spend a few moments on things we're seeing in our business on a macro level. The market fundamentals we have experienced for the past several quarters largely continued in Q2. In Dental, and on the Companion Animal side of our Animal Health business, we saw stable to strengthening market conditions in North America. We believe these portions of our businesses will continue to benefit from the gradually improving job market and its positive impact on consumer spending for both dental services and pets.

When we added Production Animal to our business mix, we not only diversified our product and service offerings, but also diversified the market drivers that affect us. Our Production Animal business faces a different set of market dynamics and cyclical factors. As we explained in some detail during last month's Analyst Day, short-term factors can affect the timing of Production and Animal revenues. However, we are also not tied to the compelling long-term trend for an ever

higher global animal protein demand, demand the U.S. livestock industry will play a lead role in satisfying. This brings to Patterson a promising new long-term growth catalyst.

With that backdrop, let's take a look at our segments, starting with Dental. This quarter, Dental represented just less than half of our total sales. Consolidated sales performance on a constant currency basis reflected several factors. First, our sales growth in consumables was a solid 3.3% in constant currency and consistent with prior quarters. We are encouraged by the stability of the consumable market and look to continue to grow our business as we help our customers grow their practices.

Second, dentists continue to see technology as a high priority area of investment. Again this quarter we are encouraged by technology sales, in particular, our Cerec sales among new users. We faced a significant comparison from the year ago quarter and are very pleased to have improved over last year and we enter the calendar buying season with high confidence. The Cerec 30 event in September was an important success evidenced by the strong attendance and enthusiasm of over 6,000 dental professionals. It is clear that this growing Cerec community is not only passionate about high-quality chair side dentistry but is also taking a leadership role in the advancement of digital dentistry.

As mentioned, we saw very strong new user demand, but trade up activity to Omnicam during the quarter was lower than we anticipated. Our Bluecam customers continue to have a very high level of satisfaction with the product, however, we believe the benefits and growing feature differentiation of the Omnicam will create strong operating demand over time.

On the traditional equipment side of the business, we're in the process of broadening the portfolio of products we can now offer to our customers. In addition to our valued and strategic relationship with A-Dec, our wider range of offerings now include new relationships and opportunities such as with Pelton & Crane, the Belmont Company, and the Sirona line of treatment centers and

traditional equipment. We are seeing early success in gaining access to more customers through this offering. While our revenue in this category declined moderately in the quarter, we are very pleased to have increased our unit volume across the chair, dental unit, and cabinetry categories as we now address a wider range of customer needs.

We are very excited to have begun training on the Sirona lines of equipment this quarter. The TENEO and INTEGO products allow us to offer our customers a new level of seamless technology integration in their practice. Initial reaction to the products from our sales force and customers has been very encouraging. We began installing initial sales of this product in November. Bottom line is we believe no company has a more compelling portfolio of products for the dental community than Patterson.

We dedicated a week in late September for our first North American Dental Sales meeting. This was a great opportunity to have over 1,800 Patterson salespeople get aligned on the significant opportunity in front of our customers and Patterson. Our industry-best sales force is absolutely committed to advancing dentistry, growing market share, and supporting our customers' business needs. We are confident in our ability to build on this growth in the second half of our fiscal year where historically the greater percentage of our sales occur. The breadth of our offerings and commitment to exceptional service continues to make Patterson the partner of choice for dentists investing in modernizing their practices and enhance patient experience and outcomes.

Moving on now to our Animal Health segment, during the quarter sales in this segment represented about 56% of total revenues and more than doubled year-over-year on a constant currency basis. Our Companion Animal business continues to benefit from the trends of both stable to improving market conditions and the rise in pet ownership and spending. Setting aside the acquisitions revenue contribution and the impact of the shift in veterinary diagnostic vendor relationships, sales in the Legacy Companion Animal business improved 3% in constant currency during the quarter. U.S. Companion Animal performed very well, growing organically by 5%. Like

last quarter, this growth was partially offset by a milder flea and tick season this year in the United Kingdom compared to last year.

Equipment and technology will continue to be a growth opportunity and differentiator in this segment. During the quarter, sales in this category improved more than 17% in local currencies. Our progress continues with Abaxis, a market leader in point-of-care blood instrumentation and consumables for the veterinary market and medical and research customers. While pleased with our Abaxis placements, which included a full line of veterinary diagnostic products, including external reference lab services and in-clinic testing, we know there is more opportunity in front of us and we are focused on increasing our sales effectiveness in this area.

As you have seen in the press release, sales from Animal Health International added \$414 million to our Animal Health segment in the quarter. Keep in mind what we discussed at our recent Analyst Day when we describe the factors unique to this business that can affect timing of product demand and our results in revenue. For example, during the second quarter, cattle producers benefited from seasonably milder weather that enabled them to leave their herds in the field longer than usual. This factor delays the sales of pharmaceuticals that would need to be applied when the herds move from outdoor grazing areas to their feedlots. While these delays impacted sales in the pharmaceutical category, our diversified portfolio of products and services help us navigate the natural cycles our customers will experience. While we know end-market pricing and customer profitability are currently soft compared to historical levels, customers only make minor spending adjustments as they manage the health of their animals over the long-term.

Most importantly, we now possess the foremost production animal business in North America and we are especially pleased at how well we executed in the market while dealing with all the integration activities involved with the acquisition. All in all, we have made the progress we expected in our Animal Health segment and are optimistic about the prospects ahead.

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

Ann Gugino: Thank you, Scott. As Scott mentioned, there were several bright spots in Patterson Companies' financial performance in our second quarter of merit highlighting. As we outlined last quarter, we have some added complexity in our results related to a few items, mainly the divestiture of our Medical business and the acquisition of Animal Health International. Therefore, as a reminder, I will concentrate my remarks on sales and adjusted results from continuing operations to help focus on the newly transformed Patterson Companies. Where appropriate, I will refer to organic sales to provide a more normalized view of sales performance.

With respect to our top and bottom line, we were reported consolidated sales from continuing operations that totaled nearly \$1.4 billion, up 44% on a constant currency basis. We are encouraged by the fact that organic growth on a consolidated basis was 3.3%, up sequentially from 1.8% in the first quarter. This quarter's performance also reflects a full quarter contribution from Animal Health International. On a consolidated basis, currency translation reduced sales by approximately 2%. We continue to anticipate that 15% to 20% of our total revenue will come from international sources. On the bottom line, adjusted EPS from continuing operations totaled 56 cents.

Now turning to margins, our consolidated operating margins for the quarter, excluding the Animal Health International acquisition, averaged 8.1%, a 40 basis point improvement over the prior year. This improvement was led by growth margin expansion of 120 basis points reflecting solid margin expansion within both of our business segments. I want to point out that we achieved 40 basis points of operating margin expansion in spite of an anomalous spike in employee health insurance claims which totaled approximately \$5 million in the quarter. While these claims affected the quarter, we do not believe the impact will be ongoing.

The Animal Health International acquisition gives Patterson a much broader base of revenue and growth opportunities but at a lower margin. When we include the acquisition, operating margins in the quarter declined from 8.1% to 7%, and gross margins in the quarter are reduced from 27.7% to 23.8%. Year-over-year, operating profits increased 30%.

Now, let's turn to our segments. In our Dental segment, organic sales improved to 3.1% on a constant currency basis. On the same basis, consumables grew 3.3%, reflecting continued stability in this end-market. As Scott noted, while overall equipment sales this quarter were up 2% and driven by technology, traditional equipment was negatively impacted by a shift in mix. We have strategically broadened our product line with new manufacturers to offer a wider range of price points.

Cerec sales rose double digits among new users, demonstrating continued strength in this technology adoption. Dental growth margins were up 50 basis points over the prior year; operating margins declined 10 basis points year-over-year after absorbing the entire incremental cost related to our national sales meeting.

Turning next to our Animal Health segment, organic sales metrics exclude both the contribution from Animal Health International and the impact of the diagnostic manufacturer change to the Abaxis. On a constant currency basis, organic sales in the segment rose over 3% for the quarter, mainly driven by two factors: solid growth in both U.S. consumables and equipment offering. Organic sales from the Legacy U.S. Companion Animal business expanded 5%. This was partially offset by only modest growth of less than 1% in constant currency sales in the U.K., which faced a tougher comparison this year due to last year's more intense flea and tick season.

As Scott mentioned, we are pleased with the sales contribution from Animal Health International during the period which totaled \$414 million. With that contribution, sales for the consolidated Patterson Animal Health segment more than doubled from the prior year. Operating margins

within the Animal Health segment rose 40 basis points primarily driven by increases in operating margins in the Companion Animal business.

In the Animal Health segment, we expect operating margins to improve as the year progresses. We anticipate full-year operating margins on an adjusted basis of 4% to 5% in the Animal Health segment. We are executing on a solid integration and synergy plan and fully expect to achieve previously announced synergies of between \$20 million and \$30 million over a three-year period.

Now, for a few balance sheet and cash flow items, we used operating cash flow from continuing operations in the quarter of \$53 million versus generating \$98 million in the prior period. This swing is due to our investment in inventories for the Animal Health business and to support new equipment product launches in preparation for the peak selling season in the Dental business. We continue to expect to convert 100% of net income into free cash flow for the year. We remain confident in our ability to generate growing cash returns on our business investments and growth opportunities.

Second quarter cap ex totaled \$24 million and included investments for normal replacements, as well as our corporate-wide information technology initiatives. For the 2016 fiscal year, we are currently estimating cap ex of approximately \$60 million to \$70 million. As you know, during the quarter we completed the sale of Patterson Medical to Madison Dearborn Partners for \$715 million in cash. This sale gave us the opportunity to quickly de-lever and immediately apply the net proceeds from the sale to reduce the debt incurred to help fund the acquisition of Animal Health International. Year-to-date we have returned a total of \$221 million to our Shareholders through a combination of \$45 million in dividends and \$176 million of share buybacks.

I'll wrap up with a discussion of fiscal 2016 guidance. Based on our performance in the first half of fiscal 2016 and expectation for second half results, we are maintaining our adjusted earnings guidance range of \$2.40 to \$2.60 per diluted share. This guidance range assumes stable North

American and international markets, includes the impact of an extra week in fiscal 2016, and excludes any impact of additional share repurchases for the balance of the year. Let me reiterate that due to sales patterns in equipment, we expect sales in the back half of the fiscal year to be stronger than the first.

Our guidance range excludes one-time transaction related costs, integration expense, deal amortization, nonrecurring IT training costs, and tax costs related to cash repatriation.

With that, I will turn it back to Scott for some further comments.

Scott P. Anderson: Thanks, Ann. As I mentioned earlier in today's call, we now enter the second half of the fiscal year, which is traditionally stronger from a sales perspective. We do so from a position of strength. In Dental, we have momentum and are optimistic that dentists will continue to place some priority on technology investments to help propel their practices to greater levels of productivity. We are well-positioned to capitalize on this trend toward the evermore digital dental practice. Our broader equipment offerings and more diverse product portfolio now appeal to a much larger number of customers. This creates new opportunities for us that are well-timed for the second half of the fiscal year.

In Animal Health, the integration work is going smoothly and we are pleased with the synergies we are capturing. We will continue to drive the current pace of activity. I could not be more pleased as to how our newly formed teams are working together. We believe we have the most formidable animal health offering in North America and the United Kingdom with strong leadership to drive this business. Operationally, we continue to move forward with our enterprise resource planning initiative and are on track for pilot testing over the next couple of months. Animal Health International's experience with its own ERP initiative has been highly instrumental in affirming our approach. We have intent to diligently execute on our capital allocation strategy. In this quarter, we demonstrated confidence in our future by investing in our business, paying

dividends, and repurchasing shares. Together, these three components will continue driving long-term shareholder value.

Before we open up the call for questions, I am delighted to welcome John Wright as our new Vice President of Investor Relations. John joins us from the Toro Company where he held a variety of leadership roles over 19 years, including time in investor relations. We look forward to the expertise and dedication he will bring to this role.

Now we'd like to open up to questions, so I'll turn the call back over to Kim.

Operator: Thank you. If you would like to ask a question today, please press star, 1 on your touchtone telephone. If you are 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 to ask a question.

Our first question today is from Kevin Ellich from Piper Jaffray.

Kevin Ellich: Good morning. Thanks for taking the questions and congratulations to John on the hire. I guess, Scott, starting off, could you talk a little bit about the Animal Health business? So, \$414 million in revenue was much - a little bit higher than we're expecting. How is that tracking relatively to your expectations, and I guess how should we think about that trajectory for the full year?

Scott P. Anderson: Well, I'd say we're - you know, as I said in our prepared comments, Kevin, a lot was accomplished in the quarter and I think what we're very place at is as well as we accomplished a lot in terms of integration activity and just change Management; our salespeople remain very focused on helping our customers, so I'd say we're very pleased and how we've begun the year and I think we'll give more color to the sales volumes as we grow through the second half of the year, but I'll just start by saying we couldn't be more pleased at how we started off.

Kevin Ellich: Great, and then with your prepared comments you talked about the milder weather, so the fall cattle run probably took place a little bit later. So, should we actually expect Animal Health International revenues to increase sequentially since we should see more pharmaceutical sales in Q4 when those cattle move into the feedlots?

Ann B. Gugino: Yes, Kevin. This is Ann. So, what I would say is you will see - I don't know that you would necessarily see sequential improvement. When I look at the model, the revenue's actually fairly consistent quarter-to-quarter, so I think it's fair to look at this quarter's contribution and kind of look at that as what we would expect in both the third and fourth quarter. I think while there is some timing because of the cattle run, like Scott suggested, there's also some softness in the end-markets around like milk prices. So, when you kind of add all the balance together, I guess what I would say and guide you is that the third and fourth quarter should have volumes similar to what you're seeing in the current quarter.

Kevin Ellich: Got it. Then Ann, since I have you, could you talk about the \$5 million of healthcare claims? I guess, what sort of items jumped out at you guys in terms of causing these higher healthcare claims and which line item did that show up in; was that your operating expense or did that actually hit some place in (cost) of sales?

Ann B. Gugino: Sure. So, I would start out by saying we're self-insured for health insurance claims up to a certain point on individual claim, and then it caps off, and unfortunately, this was an unusually high quarter for us. So historically the Company's averaged about say a 4% to 5% increase in healthcare costs over the past several years annually, and in the current quarter what happened is we saw a number of large claims, what they call them catastrophic claims that were far in excess of what we've experienced in recent years. So, specifically we saw a 35% spike in the number of high-dollar or catastrophic claims which cost us about \$5 million. And, to answer your question, most of that hit in the corporate segment - I don't have the exact breakdown, but most

of it hit in the operating expense line. I think the thing that I would stress here is because of the caps of the individual limits and just - we think the bowling ball is due to snake so to speak and we certainly don't believe that this will be our continued run rate going forward for the remainder of the year.

Kevin Ellich: Ann, since I have you too, can you talk about how much added expense did you guys incur from the national sales meeting? You said Dental gross margin was up 50 basis points but operating was down a little bit partially because of the impact of the national meeting?

Ann B. Gugino: Yes. It was between \$3 million and \$4 million of incremental expense this year, roughly.

Kevin Ellich: Okay. Got it. Then Scott, one last one for you; in your prepared remarks you talked about Abaxis and how placements are going okay. You also said they sell external reference lab services, so does that mean - are your sales people actually selling VCA lab services since Abaxis doesn't have a lab?

Scott P. Anderson: Yes. It's more of a joint venture strategic partnership, as you described.

Kevin Ellich: Okay. Great. Thanks, guys.

Scott P. Anderson: Thanks, Kevin.

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

Robert Jones: Thanks, guys. I've still got to get used to you guys talking about cattle lines and cattle runs, but I actually wanted to go back over to the Dental side and specifically around Dental EBIT margin. You know, relative to the full-year target, the 12.8% to 13%, clearly tracking a little bit below that, but totally understanding that the back half is historically higher than the front half. It

does still seem like you're expecting more year-over-year margin expansion in 3Q and 4Q, so I'm just curious if you can maybe call out a few of the specific things you guys anticipate over the next couple of fiscal quarters that should get you closer to that full-year range that you laid out in guidance.

Ann B. Gugino: Yes. I mean, I think you absolutely hit it as you were talking, so it's mainly leverage that we get off the fixed and semi-variable costs in the back half of the year because of the higher sales volumes, and I think the other piece of that that I was going to point out is that the vendor rebates tend to be backend loaded as well. So, if you would just looked historically, about (50%) of our profits kind of hit in those past two quarters and you definitely see, even if you look at last year as a model, just continued sequential improvement in the operating margin rate as you move through the year.

Robert Jones: Okay. Got it. Then I ask this of your manufacturing partner but here we are again: the government still has not renewed Section 179 Tax Credit. How is that factored in, both if it doesn't get renewed or if it does, into how you guys are thinking about the balance of the year relative to guidance?

Scott P. Anderson: Yes. I would say, Bob, I think it has less downside impact as the level of uncertainty I think is less this year than it was last year. You know, there are sort of two important dates we think where Section 179 could come through with two different legislative vehicles. It could happen on the 4th with the transportation funding bill or on the 11th with the budget bill funding the federal government. Most of the talk has been about a permanent extension for Section 179 and there are negotiations on whether or not potentially they'd settle with a two-year extension so we wouldn't have to deal with this issue two years down the road. We believe it's more likely than not that it will go through just because this is sort of in the sweet spot of helping small business, not just in our industry but across all industries in the U.S. So, our plans and our forecasts are

really around business as usual, and if we had a stronger-than-anticipated equipment third quarter, that would help our guidance story.

Robert Jones: Got it. All right. Thanks for the questions. Appreciate it.

Scott P. Anderson: Thanks, Bob.

Operator: Just a reminder, it is star, 1 to ask a question. We'll go next to Steven Valiquette from UBS Securities.

Steven Valiquette: Hey, thanks. Good morning, everybody.

Scott P. Anderson: Hello.

Steven Valiquette: So, really just a couple questions for me. I guess first on the - just a separate question on those employee medical costs. Just curious in a normal year when you think about those as a percentage of your revenue, what's kind of the average number just so we kind of know what the baseline is for that?

Ann B. Gugino: Okay. So, I'm not sure that I can do the math in my head as a percentage of revenue, but what I can tell you is that our claims on a normal month run between on a normal year around \$4 million a month.

Steven Valiquette: Okay. That's helpful I guess as far as a baseline. Okay. It's a shame that the higher costs were not tied to Dental expenses, but I guess we'll just have to take the good with the bad I guess.

Ann B. Gugino: Yes. I hear you.

Steven Valiquette: Then, just one other question; just curious. You know, obviously a little more time has passed since the Sirona DENTSPLY merger. Just curious if you have any further thoughts around what that might mean for you guys, good or bad, or is the message there still pretty much the same that you convey at your Analyst Day? Just any further updates on that, thanks.

Scott P. Anderson: Yes, Steve, I would say exactly that, just reiterating what we said at our Analyst Day that, number one, we're excited about the potential merger but I think we would withhold any further comment until after the deal is closed; and as I said in New York, we have a great relationship with both Sirona and DENTSPLY and in my 23 years at Patterson, I don't think the relationship has ever been better with either partner. So, we look forward to what the future could bring.

Steven Valiquette: Okay. Got it. Okay. All right. Thanks.

Scott P. Anderson: Thanks, Steve.

Operator: Moving on, we'll hear from John Kreger from William Blair.

John Kreger: Hey, Scott. Just go back to Bob's question, can you just tell us how your pipeline looks for dental equipment as you move into the calendar year-end?

Scott P. Anderson: Yes. I would say we're encouraged by the pipeline across the board. At the same time, there's always some volatility in our third quarter because you have a shorter timeframe of decision-making, but I absolutely like where we're positioned, not only heading into the calendar year-end but really the momentum coming out of our National Sales meeting as well and what that'll mean to us over the back half of the year.

John Kreger: Great. Thanks. Again, just to clarify, you are assuming Section 179 gets past in a normal timeframe versus something at the 11th hour so to speak, or do you not feel like it's a swing factor either the way?

Scott P. Anderson: I think it can be a swing factor, but not as dramatic as it was last year.

John Kreger: Okay. Great. Then you just mentioned the National Sales meeting again. Can you tell - you know, you've talked about a fairly significant goal of I think doubling the Cerec user base over the next four or five years; how are you feeling about the sales force productivity at this point, and maybe if you put in place any sort of newer initiatives to drive that, just kind of give us an update on it? Thanks.

Scott P. Anderson: Yes. Without sharing competitive information, I think at a very high level the meeting talked about the division and how important it is, we feel, to the dental industry to reach that goal of doubling the installed base for Cerec. It also was a great opportunity to really educate our sales force on the investments we're making internally to help them with productivity and help just become a company that is much easier to do business with in the future. I would say the meeting was an overwhelming success and our folks are very focused on what they need to get done here over the back half of the year.

John Kreger: Okay. Great. Thank you.

Scott P. Anderson: Thanks, John.

Operator: Michael Cherny from Evercore ISI has our next question.

Lou: Hi, guys. This is Lou calling for Mike. I just wanted to know if you could start off and talk about kind of the next areas of focus for your internal investment priorities now that the ERP implementation is underway.

Scott P. Anderson: Yes. I would say, as I talked about our capital allocation strategy, it's investment in the business, which I think we're showing not only through acquisition, but also ERP investments to drive productivity within the Company, but also having sort of this three-legged stool approach of growing our dividend with earnings but also repurchasing shares of which we activated or executed on roughly \$176 million during the quarter. So, I think we're very focused on the two segments we have currently and wouldn't see any significant new investments beyond what we have on our plate right now.

Lou: Okay. Great. Then if you guys could talk about any of the synergy capture that you have from AHL and how the integration is going.

Ann B. Gugino: Sure. I can take the synergy piece and then I'll let Scott comment how he thinks the integration is going. So, we still expect to ramp to \$20 million to \$30 million of annual synergies by year three. The current year guidance assumes between \$7 million and \$8 million of synergies. We're on pace to achieve that. The current quarter had roughly between \$1 million and \$2 million of synergies in it, mainly around, as Scott mentioned in his comments, the integration of the Companion Animal business, both the sales forces and then the backend operations as well.

Scott P. Anderson: Yes, and I would add that from a marketplace strategy perspective, we're on plan and I'm very impressed at the pace in which our Teams continue to move. As I said in my prepared remarks, I think we've put together a combination of really strong folks in terms of the Management Team that's leading the combined business. With any acquisition, culture is a huge deal and absolutely feel we have a very strong cultural fit between the two businesses. I would also add I think our - in fact, I know our manufacture partners are very excited to have Patterson

as a full line animal health channel to end customers. So, we'll continue to execute our plan in the months ahead.

Michael Cherny: Okay. Great. Thanks.

Operator: Once again, it is star, 1 if you have a question today. Our next question is from Lisa Gill from JP Morgan.

Mike (McJankin): Thanks. It's actually Mike (McJankin) for Lisa. So, just wanted to go back to Dental equipment again. You know, the growth trends there have bounced around on a quarterly basis. You commented about growth in Cerec this quarter and discussed some of the basic equipment categories. Can you maybe talk about what you're seeing in terms of some of the other high-tech categories; and then maybe just more broadly, what do you see as a more normalized longer-term growth rate for the overall Dental equipment category going forward?

Scott P. Anderson: Yes. Sure, Mike. We're seeing some very nice growth in some of the digital technologies, particularly the 3D Cone Beam, and it sort of goes back to what we're talking about with Cerec as well and how all of this is integrated. You know, at the Cerec 30 event we spoke about the ROI strategy, which is really around restorative excellence, (implantology) workflow, and growing orthodontic capabilities. So, it's hard to sort of cherry pick one category over the other because it really is a story of all of these technologies working together.

We've said the underlying market in terms of technology growth should continue to grow at a CAGR of north of 10%, and the traditional equipment business will grow in the mid-single digits. Really one of the big catalysts that will help the traditional business is when you start seeing really a renaissance of new construction in terms of office expansion, and we believe to meet the future demands that the North American dental population will create, that we will see that

expansion over time. But, we would probably look towards mid-single digit growth in the traditional equipment over the next one to two years.

Mike (McJankin): Got it. Then maybe on the M&A front, obviously you have a lot on your plate with the Animal Health International integration, but can you talk about your interest in pursuing additional acquisitions; and if so, sort of what areas do you view as attractive from the standpoint of first the availability of attractive targets out there and then maybe in terms of valuation?

Scott P. Anderson: I'd say we've been very clear that investing in our business and expanding our business is a top priority. I would say as we've worked through our strategic plan, and it really came to life last year when we divested the Medical business and really now we're concentrating on the Dental vertical and the Animal Health vertical, that leaves us with plenty of potential. We believe from a financial perspective we have the dry powder to execute on any opportunities in front of us.

That being said, we've done a lot in the last year and our number one goal is successful execution of the M&A strategy that we currently have on our plate. But, from an opportunistic standpoint, we'll continue to survey how we can improve our business by adding different potential companies or products to our portfolio. Ann, do you want to give any additional color?

Ann B. Gugino: No. I think you nailed that answer, yes.

Mike (McJankin): Great. Thanks for the comments.

Scott P. Anderson: Thanks, Mike.

Operator: Our next question will come from Jon Block from Stifel.

Jonathan Block: Great. Thanks and good morning. Scott, maybe the first...

Scott P. Anderson: Hi, John.

Jonathan Block: Good morning. Maybe just the first one for you on the consumable trends, I believe you mentioned good tailwinds on the fiscal 1Q16 earnings call. The 3.3 was solid but sort of in line with where it's been and not an acceleration. I don't know, there was some chatter that it's been choppy as of late, so can you just talk about the trends of consumables as you guys experienced throughout fiscal 1Q and maybe even what you're seeing in the month of November?

Scott P. Anderson: Yes. We're continuing to see stable trends in November. I think based off the information we get from all of our manufacturers and our manufacturers that are public companies, I would say we're comfortable in saying we continue to grow slightly faster than the underlying market. But, I wouldn't say we're seeing much choppiness in the Consumable business. It's been fairly consistent.

Jonathan Block: Okay. Got it. Just second question maybe two parts; just on the U.K. Vet business, there's been some commentary from other guys that international has been weak, so just your level of confidence that that is more the overall market relative to market share. Then just, Ann, to conclude, it looks like you guys were aggressive on the share repo once the window opened. Is your commentary still that sort of the share repo takes you to the upper-end of your range, the thought for fiscal '16? Thanks, guys.

Scott P. Anderson: Yes. I'll talk about the U.K. market and then I'll let Ann talk about guidance and then give some color after Ann. Yes, it's been pretty consistent for about the last six months that the U.K. underlying market is very stable but is really running into a tough comp issue. You know, so we're comfortable with what Management is doing in the U.K. to adjust to those circumstances

and we'll drive the business accordingly. I'll turn it over to Ann to give some color on the share repurchase.

Ann B. Gugino: Yes. Sure. The accretive affect of the share buyback to date was about half a penny and we expected to add between 2 cents and 4 cents for the balance of the year based on what we've purchased so far. But, of course, in any period there's a number of items that can affect EPS either way, right, and so picking one individual item - so, for example, we had the FX tailwinds; we had the insurance claims - so we think it's prudent to keep the original range at this point, and I think in terms of getting to the upper-end of the range - I think Scott alluded to it - I think with 60% of the revenue coming in the back half of the year, it's really going to depend on the equipment pipeline more so than the share repurchase I think at this point given what I'm looking at.

Scott P. Anderson: Yes. I would say as we look at the back half of the year, our ability to get to that upper-end of the range is really going to come down to sales execution, and because of the size and some volatility that can happen in our third quarter, which is the calendar fourth quarter, we're just being prudent and keeping our guidance range where it's at. But obviously the share repurchase, I think, shows our confidence in the business and strengthens our story.

Jonathan Block: Got it. Very helpful. Thank you, guys.

Scott P. Anderson: Thanks, John.

Operator: That's all the time we have for questions today. Mr. Anderson I'll turn the conference back to you for additional or closing remarks.

Scott P. Anderson: Thank you, Kim, and thanks everyone for joining us today. Again, we're very optimistic for the second half of this fiscal year and we look forward to updating you next quarter.

On behalf of everyone at Patterson, we'd like to wish you all a happy Thanksgiving and I hope to see many of you next week in New York at the Greater New York Demo Show. Thank you.

Operator: That does conclude our conference today. Thank you all for your participation.

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