

Scott P. Anderson
President & Chief Executive Officer

- Good morning and thanks for taking time to participate in our first quarter earnings conference call.
- Joining me today is Steve Armstrong, our executive vice president and chief financial officer, who will review some highlights of our first quarter performance following my opening remarks.
- Since Regulation FD prohibits us from providing investors with earnings guidance unless we release that information simultaneously, we provided financial guidance for fiscal 2013 in our press release earlier this morning.
- This guidance is subject to a number of risks and uncertainties that could cause Patterson's actual results to vary from our forecasts.
- These risks and uncertainties are discussed in detail in our Annual Report on Form 10-K and our other SEC filings, and we urge you to review this material.
- Turning now to our first quarter results, we reported results that were largely consistent with our internal forecasts for this period.
- Consolidated sales increased 5% to \$889.8 million, from \$847.4 million in last year's first quarter.
- We also reported net income of \$47.5 million or \$0.45 per diluted share, compared to \$48.6 million or \$0.42 per diluted share in the first quarter of fiscal 2012.
- Our net income in this year's first quarter was affected by the absorption of \$3.2 million of incremental interest expense related to our debt issuance in last year's third quarter.
- Now, for the next few minutes, I will briefly review Patterson's first quarter performance.
- We are generally pleased with our first quarter results, despite persistently soft economic conditions both in North America and our foreign markets.
- Patterson Dental, our largest business, reported solidly higher first quarter sales growth of 7% to \$567.9 million
- Within this unit, sales of consumable supplies were below forecasted levels, and we are intensifying our focus on this key component of our sales mix.
- However, the exceptionally strong sales growth of CEREC products and the low double-digit sales growth of basic equipment more than compensated for the below-plan consumables sales.
- Our robust CEREC sales were generated in part by strong demand from new users, reflecting the ongoing trend toward the digitization of dentistry.
- We estimate that CEREC systems have penetrated about 15% of the North American dental market, which means this product line has significant sales potential going forward.
- We believe sales will receive an additional boost from the recent introduction by Sirona of a revolutionary new camera for its CEREC system.
- As the latest technological advancement for the CEREC system, the Omnicam camera features powder-free imaging and streaming, photorealistic 2D and 3D clinical images that are displayed in full color.
- This new camera, which will be available on new CEREC systems, will make CEREC significantly easier to use and provide for improved clinical outcomes.
- CEREC systems equipped with the Omnicam camera will start selling in the second quarter as Sirona ramps up production.
- Also last week, Sirona announced the introduction of the new Schick 33 intra-oral sensor which provides the highest resolution of any sensor in the market, improved image management and compatibility with existing Schick systems.
- In addition, Patterson and Sirona, the undisputed leader in digital dental technology, recently expanded our exclusive North American marketing agreement to cover Sirona's complete product line, including digital panoramic and cone beam x-rays.
- This move further strengthens Patterson Dental's position as the leading distributor of dental technology and other equipment.
- We were very pleased with the first quarter performance of our Webster Veterinary Supply unit.
- Webster's internally generated sales increased more than 10% in this period.
- A change in a distribution agreement for nutritional products late in last year's fourth quarter reduced Webster's first quarter sales growth by approximately six percentage points, while the August 2011 acquisition of American Veterinary Supply Corporation added 2.5 percentage points of sales growth.
- Reflecting these factors, Webster's first quarter sales increased nearly 6.5% to \$191.1 million.

- Webster's solidly higher sales were generated by robust demand for consumable supplies.
- This growing business is currently implementing a range of strategies aimed at further strengthening its full-service platform.
- The expansion and training of its field sales force are aimed at boosting sales of both consumables and equipment.
- To further spur its equipment business, Webster plans to achieve full national coverage for technical service by the end of fiscal 2013.
- In addition, Webster is continuing to strengthen its growing range of technology solutions for veterinarians and their clients.
- Reflecting these and other initiatives, Webster is enhancing its competitive position to capitalize upon favorable pet ownership and consumer spending trends, and we intend to continue investing in this growing business.
- Before leaving Webster, it should be noted that IDEXX Laboratories recently reaffirmed its longstanding exclusive relationship with Webster, and we look forward to continue growing with this industry-leading manufacturer of veterinary products.
- Sales of Patterson Medical, our rehabilitation supply and equipment unit, declined 3% in the first quarter to \$130.7 million, due primarily to weakness in its equipment business.
- The impact of negative foreign exchange rates largely offset the nearly 2% sales contribution from Patterson Medical's April 2012 acquisition of Surgical Synergies, a distributor of physiotherapy, rehabilitation and mobility products serving the Australian and New Zealand markets.
- Despite U.S. healthcare regulatory uncertainties and the weak economic environment both here and abroad, we believe Patterson Medical...as the only single source of supply in the rehabilitation market...is strongly positioned to take maximum advantage of worldwide demographic trends that will have a favorable long-term affect on the rehabilitation market.
- Finally, as we stated in this morning's release, we remain on-plan toward achieving our previously issued financial guidance of \$2.10 to \$2.16 per diluted share in fiscal 2013.
- In closing, I want to say that although our markets have not yet returned to their historic growth norms, Patterson's businesses are continuing to perform well in a challenging economic environment.
- We are proceeding on track toward a successful fiscal 2013, and we are optimistic about Patterson's long-term future.
- Thank you. Now, Steve Armstrong will review some additional financial highlights from our first quarter results.

R. Steven Armstrong
Chief Financial Officer

- Thank you, Scott.
- I will begin my remarks with an additional comment or two on sales growth for the quarter.
- The impact on consolidated sales from the benefit of acquisitions and the negative impact of changes in currency exchange effectively offset one another in the period.
- Each was less than 100 basis points.
- As we had previously disclosed and as Scott mentioned earlier, the change in the nutritional product arrangement in our veterinary unit reduced consolidated sales growth by 130 basis points in the quarter.
- This change will continue to affect our sales volumes into the first half of the fourth quarter of the fiscal year, but it has a minimal impact on our operating profit as we now sell this product line under a national agency commission arrangement.
- The primary factor influencing our consolidated gross margin in the quarter was mix.
- Gross profit was up 3% in the quarter on the higher sales volumes, but our gross margin declined 70 basis points as the trade up activity in the dental segment on the CEREC product and the continued strong seasonal sales of parasitides in the veterinary segment depressed our margin.
- Both of these factors are expected to diminish as we progress through the fiscal year.
- Our operating expense ratio improved by 40 basis points on the improved sales volumes as we were able to gain leverage on our fixed cost structure.

- Two items that dampened the improvement included integration and rationalization costs related to the Australian operations of the medical unit, and the costs associated with the continued expansion of the technical service capacity of the veterinary unit.
- We do not anticipate these items to be significant as we move through the remainder of the year.
- Our first quarter operating margins were 9.8% for Dental, 12.6% for Medical and 5.3% for Veterinary.
- Interest expense in the quarter increased over \$3 million as we absorbed the impact of the incremental debt that was added in December of 2011.
- Our lower income tax rate reflects the increased benefit from the deductibility of the cash dividends paid to the Employee Stock Ownership Plan in the current period.
- As you will recall, we increased our cash dividend in the fourth quarter of this past fiscal year.
- The tax rate for the fiscal year should be in the range of 35% to 35.5%.
- We generated cash flow from operations of approximately \$60 million in the first quarter, compared to \$67 million in the year-earlier period.
- I also want to mention that we repurchased approximately 1.1 million Patterson shares during the first quarter under our 25 million-share buyback authorization that expires in 2016.
- Approximately 10 million shares remain available for repurchase under this authorization, and depending upon market conditions and other factors, we may make further share repurchases on an opportunistic basis.
- A brief review of our balance sheet reveals the seasonality of our business.
- The higher levels of sales, and resulting increase in accounts receivable, in the third and fourth quarter of the prior year are generally paid down in the first quarter of the subsequent year.
- At quarter end, our DSO stand at 43 days, compared to 46 in the prior year, while inventory turns are 6.9 compared to 6.7 a year ago.
- With that, I'll turn it back to the conference operator, who will poll you for your questions.