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Moderator: John Wright
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9:00 am CT

Operator: Please standby, we're about to begin. Good day, and welcome to the Patterson Company's First Quarter Fiscal 2017 Earnings Announcement Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to John Wright, VP of Investor Relations. Please go ahead sir.

John Wright: Thank you (Don): Good morning everyone and thank you for participating in Patterson Company's Fiscal 2017 First Quarter Earnings Conference Call.

Joining me today are Scott Anderson, our Chairman, President and Chief Executive Officer and Anne Gugino, our Executive Vice President and Chief Financial Officer. After a 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 forward looking in nature and subject to 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 other filings with the Securities and Exchange Commission.

We encourage you to review this material. In addition, comments about the markets we serve, including growth rates and market shares are based on the Company's internal analysis and estimates.

The content of this conference call contains time sensitive information that is accurate only as of the date of the live broadcast August 25, 2016. Patterson undertakes no obligations to revised or update any forward-looking statements to reflect events or circumstances after the date of this call. Also, a financial slide presentation can be found in the Investor Relations section of our Web site at pattersoncompanies.com.

Please note that in this morning's conference call, we will reference our adjusted results for both the fiscal 2016 and 2017 first quarters, which exclude the impact of one-time transaction-related costs, deal amortization and foreign currency and extra selling days. We will also discuss free cash flow, which we define as operating cash flow minus capital expenditures.

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.

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 would like to hand the call over to Scott Anderson.

Scott Anderson: Thank you, John. Welcome everyone to today's conference call. It's been nearly one year since we completed the combination of portfolio changes that have led to the more aligned and focused Patterson Companies that we have today.

The same boldness that led to broadening our view of our end markets and reshaping our business is now driving a renewed and intensified effort to look deeply at every aspect of our operations.

We are striving to ensure that we are serving our customers with maximum effectiveness, anticipating and capitalizing on changes in our industry and running our business with optimal efficiency. This is the enterprise-wide mindset at Patterson today. And it is carrying us forward into Fiscal 2017.

Ensuring that our go to market approach is best aligned with, and anticipates changes in the market, will be a centerpiece of our growth efforts. I'd like to share some perspective on how that is playing out, especially in our dental business.

Patterson Dental has been the market leader in transforming the customer experience. Through the years, we have implemented multiple initiatives that improve the lives of our customers and employees.

Our early leadership in ecommerce helped evolve the Patterson sales force to a truly value added business partner. Today, our customers are evermore technology focused, relying on a combination of ecommerce and high touch consultative sales support to accommodate their needs and desired purchasing patterns.

This means a significant opportunity for Patterson. And we intend to be at the forefront of this change. We have been laying the foundation for several quarters and during the first quarter, we once again began the process of transforming the market with the realignment of our field sales force in our Dental Division.

For some time, we have underscored our clear strengths and market leadership in technology and equipment sales. We have made clear the importance of our enterprise resource planning initiative and we have committed to obtaining the necessary talent and skillsets needed to enhance our competitiveness.

All of these efforts are components of a larger strategy to modernize and optimize our go to-market-strategy for a successful future. Our new ERP system will provide the backbone and toolsets for a more expansive and effective ecommerce platform designed to accommodate the evolving buying patterns of our customers.

You'll likely saw that we recently made a strategic hire in Todd Marshall who joined us from Target Corporation as Chief Marketing and Digital Officer. Todd is responsible for further building out our enterprise-wide marketing and ecommerce platforms.

He is leading our efforts to enhance our digital roadmap and strategy. Todd will also be responsible for taking the business intelligence gained from our new systems and help shape the customer experience across our businesses. We welcome Todd to our team.

The realignment of our sales force leverages our strongest performers and broadens their responsibilities. Our goal with this initiative is to generate higher productivity per salesperson and deeper market penetration.

But most importantly, it is to deliver our customers the sales experience they increasingly need, while creating more opportunity for our best in class sales force, it also allows us to increase investment in our technical service capabilities. We believe that enhancing our go-to-market in dental will not only address a changing marketplace and customer, but play directly to Patterson's strengths.

Our passion for customer success is unwavering. We are committed to serving customers with the best sales, technical service and customer service expertise, combined with an evolving best in class digital experience. We're excited to serve the needs of all types of dental professionals.

Now, some perspective on our markets and overall performance, our first quarter results reflect a combination of general stability in our markets, Patterson's strengths and our willingness to make the short-term sacrifices to capture long-term opportunity.

During the quarter, we continue to see overall stability in the dental market and our results support that view. Consumable sales were slightly lower sequentially during the quarter.

And, while we did witness some end-market softness in the sales category, we believe a significant portion of this impact resulted from the disruption caused by our sales force realignment initiative.

As I mentioned earlier, we believe the longer term benefits we intend to realize from this initiative are worth the short-term revenue impact. In fact, we are already experiencing some upside opportunities, particularly around equipment and technology purchases.

In equipment, sales during the period were solid and our pipeline trends are positive. We believe this supports our view that dental practitioners are generally confident in patient volumes and remain willing to invest for the future success of their business. Within the category, volumes of basic equipment were healthy this quarter, and we were pleased with how our broader product portfolio is performing.

Technology sales this quarter were led by CEREC, which had another outstanding quarter. Clearly, there is still considerable excitement around the zirconia workflow for CEREC. And, we were delighted by the level of traffic and buying interest at the SIROWORLD event earlier this month.

This was a highly successful event for us. And we expect the momentum we have to - that we have built to continue. In the intra-oral digital X-ray category, the softness we experienced last quarter continued.

As I stated last quarter, the market in this category is substantially penetrated and Patterson has earned significant share over time. However, we continue to see opportunities here and expect our go-to-market initiative to generate momentum as we move forward and access new customers.

Now a look at our animal health segment, once again this quarter, we executed well against stable to steadily improving market conditions across both our Companion and Production Animal businesses. We believe this is a direct result of our integration success and our team's ability to unify under the Patterson Animal Health banner.

I'll remind you that the summer months are typically the softest for the production animal industry, as animals have yet to be brought into feedlots. Considering this, we are particularly encouraged by the sales performance in our Production Animal Business this quarter, which outpaced our expected end-market growth rates.

Like last quarter, we saw improvement in swine end-markets and stable to improving conditions in beef cattle. In Companion Animal, we continue to execute well against steadily improving market conditions in all of our regions.

In the U.S. our Companion Animal Business recorded double-digit organic growth and NBS, our UK Division, posted solid currency adjusted gains this quarter. We are confident in our market position and ability to execute it within our Animal Health segment and believe we are off to the right start in Fiscal 2017.

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

Ann Gugino: Thank you, Scott. And thank you all for joining us today. Overall, we are pleased with the company's performance, relative to the current market conditions across our businesses.

Patterson continues to be very competitive in our chosen markets. And, as Scott mentioned, we made continued progress in our efforts to build a platform for long-term growth and efficiency in an evolving marketplace.

In reviewing the company's first quarter performance, I will discuss sales and adjusted results from continuing operations to focus on our current portfolio of businesses, as I've done in the past.

Please note that we had one less selling week in the Fiscal 2017 first quarter, compared to the year ago quarter. Our first quarter sales also include a full quarter contribution from our acquisition of Animal Health International.

As of June, this acquisition is now annualized into our results. Our contribution from Animal Health International was only six weeks in the prior period.

Where appropriate, I will highlight organic sales, which strip out the incremental contribution from the Animal Health acquisitions, currency effects and the extra week. This will provide a more normalized view of results.

Taking a look at our topline performance, consolidated sales for Fiscal 2017, first quarter, increased 16.6% to $1.3 billion on a GAAP basis. The extra week in last year's first quarter, reduced to this year's reported sales by 5/6% and currency translation negatively impacted this figure by about 2%. Organic revenue was in line with our trailing 12-month performance and grew 6.1%.

Turning to margins, as we've previously stated, the core rationale for our portfolio realignment over the past year, is to begin building platform for long-term growth and return on invested capital.

In exchange, we anticipated some margin dilution. Our consolidated average margins reflect this. And, with one less selling week in this year's fiscal first quarter, we had lower operating leverage.

Our consolidated operating margins declined 110 basis points, compared to the prior year quarter, consistent with our expectations. On the bottom line, GAAP net income from continuing operations grew to 38.9 million, roughly doubling to $0.40 per diluted share, compared to 20.3 million or $0.20 per diluted share a year ago.

Adjusted net income from continuing operations, which exclude certain non-recurring and deal amortization costs, totaled 48.8 million for the first quarter of Fiscal 2017. Adjusted earnings from continuing operations rose 8.5% to $0.51 per diluted share, reflecting the company's sound performance in the current market.

Now, let's move to our segments. In dental, we experienced stable markets in the 2017 first quarter. Patterson Dental sales declined 3.5% on a GAAP basis, but expanded by 2.1% organically.

As Scott mentioned, we were pleased with our dental equipment sales, which grew 5.4%. We believe our momentum and equipment, helps support our confidence in the end markets.

Equipment sales in the first quarter were driven by a combination of strong demand for CEREC CAD/CAM systems and solid volumes in basic equipment.

On the consumable side, consumable dental supplies increased about 1%. This growth reflects several factors, most notably the impact of our sales force realignment.

As Scott said, dental purchasing patterns are evolving and we are adapting to meet these needs. While we expect our dental sales force realignment would better position us for growth, it contributed along with the extra selling week in last year's first quarter to a 30 basis point contraction in dental operating margins.

Patterson has a long tradition as an industry leader and we expect to lead this industry change in order to adapt to our customers shifting needs. Overall, we believe that our performance in the first quarter was strongly competitive, relative to the industry.

Now turning to our Animal Health segment, results in this business reflect a full quarter contribution from Animal Health International in the 2017 first quarter, compared to a six week contribution from Animal Health International and the extra sales week in the year ago period.

At the end of June, the Animal Health International acquisition is annualized into our results. Again, in the first quarter, the company executed well in stable to steadily improving market conditions and we saw solid performance in our Animal Health business and in the 2017 first quarter, which outpaced our expected end market growth rates.

Our Animal Health sales grew 36.8% on a GAAP basis. Currency translation lowered this number by 3%. We were pleased with the first quarter sales of our Companion Animal business.

Organic Companion Animal sales grew 11.7%. Normalizing for changes in selling arrangements for certain products, U.S. Companion Animals sales grew 8.1%.

Our performance in the Production Animal industry reflects an encouraging improvement in the swine market. Overall, we believe we are well positioned in the Production Animal sector and we expect the beef end markets to continue to improve as the year moves on.

The first quarter sales contribution from our Production Animal business totaled almost 362 million, a 3% increase on a pro forma basis. Operating margins for the Animal Health segment decreased 20 basis points to 3.2%.

The first quarter margins reflect a combination of factors, a seasonally low sales quarter in Production Animal, the timing of product rebates and a less favorable product mix. In Animal Health our ongoing integration activities and progress towards planned synergies remained on track.

Our synergy focus this fiscal year is to more effectively leverage our supply chain across both of our businesses and further consolidate our back office functions.

To this end, I'm pleased to say that we've achieved a major milestone and completely integrated the back office operations of Animal Health International with Patterson. Further, we remain on target to achieve our stated goal of capturing between 20 and 30 million in annualized synergies over a three year period.

Now a look at a few balance sheet and capital items, net cash used by operating activities from continuing operations with 72.8 million versus cash flow generated of 7.7 million in the prior year quarter.

As a reminder, our first quarter is historically our lowest cash flow period. Additionally, inventories were up by 77 million year-over-year due to increased dental equipment purchases, as well as higher inventory levels related to our ERP implementation to maintain service levels.

We also continued to execute on our capital allocation strategy by returning cash for shareholders. Demonstrating our commitment to enhancing shareholder value we returned approximately 49.2 million to our shareholders in dividends and share repurchases during the quarter.

We remain confident in our ability to generate growing cash returns on our business and expect to return to converting between 85% and 100% of net income into free cash flow in Fiscal 2017.

CAPEX total 15 million in the Fiscal 2017 first quarter and included investments from normal replacements as well as our corporate wide information technology initiative.

Turning now to tax rates, our adjusted effective tax rate for the quarter was 33%, which includes the discrete cash benefit of 1 to 2 cents per diluted share related to the new accounting standard on shared-based compensation. The adjusted annual tax rate is expected to be in the range of 34-1/2% to 35%.

Now let me discuss our Fiscal 2017 guidance. As we said, Patterson is midstream in a process of repositioning the company for larger growth goals ahead. In Fiscal 2017, we will continue to move through a period of intense execution on a range of initiates that we believe are critical to top and bottom line expansion.

It is also helpful to consider the market dynamics we expect to take. At this early juncture, in Fiscal 2017 we currently anticipate stable markets in both Dental and Animal Health.

Our annual guidance range includes a pretax 25 million step up in operating expense associated with our ERP implementation. As we explained, this investment will start depreciating as we move further into broader implementation later this year.

During this period, we will essentially be running redundant systems to help facilitate the transition to our new platform. This step up in expense includes cost for depreciation, rollout and infrastructure support.

We believe our new ERP platform will lead to new efficiencies. However, some of them cannot be fully realized until the platform is completely implemented. That said we believe we have a sound process in place, to migrate to our new system, in a way that ensures business continuity and high levels of customer support and leads to significant future efficiencies once the transition is complete.

We continue to make progress rolling out the ERP systems. After the first quarter end, two more pilot locations, as dental branches, went live in August.

These sites are in addition to the previous five dental branches, one Companion Animal Call Center and two-shared distribution centers that went live on our new ERP pilot program on February 1.

For Fiscal Year 2017, we expect consolidated operating margins to be flat to down slightly after absorbing the 25 million step up in ERP expenses. The majority of which will be allocated back to our business segment.

We are monitoring, various factors that can affect our end markets and therefore Patterson's performance. With this in mind, we are reaffirming our Fiscal 2017 guidance range for adjusted earnings from continuing operations in the range of $2.60 to $2.70 per diluted share.

Our guidance range assumes stable North American and international markets and excludes the impact of additional share repurchases, new acquisitions and transaction related costs, integration and business restructuring expense and deal amortization.

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

Scott Anderson: Thanks Ann. On balance, we're entering Fiscal 2017 with several positive dynamics in our business that we believe put us in position to have a successful fiscal year.

We face a full plate of initiatives designed to expand our top and bottom lines. We continue to make the progress and achieve the milestones we set for ourselves on the integration of our animal platform.

Today, we have a unified culture and a single voice in the market. And, we are poised to capitalize on market conditions as they improve throughout Fiscal 2017.

As Ann mentioned, pilot implementation for our enterprise resource planning initiative remains on track and we are capitalizing on the learnings we are gaining from this process.

Well, just the efficiency possibilities from this initiative is encouraging the prospects of what this new system holds for us, as part of our go to market efforts in Dental and Animal Health are truly exciting.

Market conditions across our business continue to create opportunity for us. While we continue to closely monitor the health of our end markets, we are striving to build the Patterson Companies that can compete in any market environment.

Now with that, we'd like to take any questions and I'll turn the call over to (Don).

Operator: Thank you. If you'd like to ask a question, please signal by pressing star 1 on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment.

Again, press star 1 to ask a question. And we'll take our first question from John Kaufman with William Blair.

Jon Kaufman: Hello, good morning, John Kaufman here, on for John Kreger. Can you talk a little more about what you are seeing in the dental market currently? And more specifically, can you hit on the dental consumables market this past quarter? And then what are your expectations for the remainder of Fiscal 2017?

John Wright: Sure, thanks Jon. You know, when looking the North American consumable market, I would say we have seen some summer softness to the market. But I really don't want to over react to it because when you look at it, there are really multiple signs towards the thesis that this will be short term in nature.

I think we have a North American economy with strong consumer confidence. We have unemployment levels under 5%. We look internally to a strong pipeline for equipment and technology and we also have done some pretty in depth customer survey data that points towards a rather encouraging outlook that our customer have going forward.

So, we obviously don't want to over react to just a little softness over the summer months. But, we'll continue to monitor the trend. Really some key months are August and September in terms of patient traffic.

And remember, consumable sales lag patient traffic. So as the dentists get into what is sort of the back to business time of mid-August to September and back to school, that will be something that we will be watching very closely.

But, I would say the underlying fundamentals of the market continue to be, we think, strong.

Jon Kaufman: Okay, great. And then one follow-up question here. I'm not sure if I missed it. Can you provide us with this quarter's AHI sales? And then there's a small portion of that in Companion Animal, correct? And then on a pro forma basis, what were the Production Animal sales in the first quarter of Fiscal Year 2016?

Ann Gugino: Okay, so I think I caught all that. But you might have to remind me at the end. So the total sales for Animal Health International, it's a little bit tricky because, of course, you've got six weeks that have annualized into our results. And then, you have six weeks of incremental impact.

So, if I look at the Production Animal business only, the revenues were 362 million. And then, you're right, there's about 15 million of incremental revenue that you'd have to add to that that would be coming in from the Companion Animal. So, I think that was Part 1 of your question.

Production Animal business on a pro forma grew 3% versus the prior year. But, I feel like you had one more question that I maybe didn't hit on, something related to 2015?

Jon Kaufman: No. I think that was it. Thank you.

John Wright: Thanks John.

Operator: If you find that your question has been answered, you may remove yourself from the queue by pressing the star key, followed by the digit two.

As a reminder, it's star 1 if you'd like to ask questions. We'll go next to Jon Block with Stifel.

Jon Block: Great, guys, thanks and good morning. I'll start with maybe the dental op margins. They were down 30 bips. And, Ann, you gave a lot of good reasons, the extra week, et cetera.

But you are holding the guidance for that, which I think initially, implied that op margins in dental would be up about 35 basis points at the midpoint for the year.

Obviously, you had some of the restructuring. Maybe, if you can talk to how we can see the op margin expansion unfold for the balance of the year, the cadence that we should see because again, it implies a pretty big move maybe 50 bips over the next three quarters to get to the midpoint of your guidance. Thanks.

Ann Gugino: Sure. So you're right. We saw some margin contraction in the current quarter on an adjusted basis of about 30 basis points. And I would say that's simply a function of the extra week and that margins were actually in line with our expectations for the quarter.

So, we do continue to expect operating margins to be between 13 and 13-1/2 for the year. You know, as you know with our model, our margins do increase as the year goes on, in line with increasing volumes. And then, we have some rebate activity in the back half of the year.

So, what I would encourage you to do is if you look at last year's margins by quarter, and then you kind of take that 35 basis points increase that we're looking for and kind of spreading it evenly throughout the back half of the year that should get your close.

Jon Block: Okay, got it, very helpful. And then, Scott, I hate to sort of follow up on the prior question. But obviously, there have been a lot of questions as to the market. And so maybe if I could just ask you, anything that you can provide from sort of a monthly standpoint? You know, how the quarter unfolded? Maybe even a glimpse into August just to sort of see if this is, you know, quote unquote, a "blip" or something that is closer to a trend. Thanks, guys.

John Wright: Yes, I'll let Ann start and then I'll give some color.

Ann Gugino: Sure. So May was in line with our trailing 12 months. We did start to see some softening in June. But again, as Scott pointed out, this is when we implemented the sale force transition. So it's a little bit hard to decipher exactly how much of that softening is internally imposed versus externally driven. July was similar to June, maybe a little bit softer. But August seems to be rebounding a bit.

John Wright: Yes, and John, I would point back to my previous comments about, you know, quite a few indicators that would lead us to be more confident that it just was a little bit of summer softness.

But, it's going to be a very critical, as I said, as you get in to September/October, which really becomes the busier season for the dental practice.

You know, we're also very encouraged by, you know, obviously our equipment performance and not only the current performance in the first quarter, but also our pipeline. So, we definitely do not want to over react to just some softness in the summer, because over the last 25 years, I've been in the business, we have seen this in the past.

Jon Block: That's perfect. That's what I was looking for. Thanks, guys.

John Wright: Thanks Jon.

Operator: We'll take our next question from Jeff Johnson with Robert Baird.

Jeff Johnson: Thank you. Good morning, guys. Can you hear me okay?

John Wright: Hi Jeff. Yes.

Jeff Johnson: Hey great. So Scott, just wanted to start maybe on the dental equipment side. Obviously, a pretty decent number this quarter, a pretty good number especially in the context of the end-markets, but it does sound like dental equipment inventory was up.

So just trying to figure out, you know, I heard what you said on pipeline, but as we are all trying to figure out end-markets here, you know, is any of that inventory moving up a reflection of the equipment sales out the door have slowed here in the last month or two?

I could also imagine a scenario where when you were making the sales force changes in June that maybe you were a little hesitant to buy equipment then so it was just July equipment purchase and that kind of, you know, caused some timing issues with how your balance sheet closes in the quarter and that. So just trying to figure out why those dental inventories maybe were up as much as they were this quarter.

Scott Anderson: Oh thanks Jeff. And thanks for the question. The inventories are up, but I would say this is really a continuation of really managing the technology and the equipment supply change. And, something we've worked through many times.

I would say if I would point to anything, I would point back to our softer third quarter last year. And the one thing about technology products is you really want to make sure you're in a position to be able to fulfill demand because selling cycles are shorter.

So, while we feel we're in a very good position going into the selling season, we're bullish about the opportunity ahead. But, this is really more a function, I think, going back to the third quarter of last year.

That being said, I would say we're very well positioned, right now obviously, in terms of inventory to meet the demand of what we think we'll see in our second and third quarter.

Jeff Johnson: All right. That's helpful. And Ann, maybe two questions for you. I found your Production Animal comments kind of interesting that beef was stable and swine obviously, has bounced back the way it has been.

You know, you didn't mention dairy, but when I look at dairy price charts they have rebounded quite nicely here. You'd put up 3% pro forma organic in that segment.

So it actually feels like to me, maybe this could be the low point, at 3% pro forma, if dairy gets better from here and the other markets are doing what they have been doing here recently. Just kind of, what's your outlook there and is that the way I should be thinking about how those three segments come together into the production business overall?

Scott Anderson: Yeah, Jeff, I'll start in and then I'll have Ann finish. We held a joint national sales meeting with both our Production and Animal Health teams. And, I got to spend some time with our dairy folks and obviously, it's an awesome team that has worked through many different cycles.

And, I think they feel like we're coming out of a cycle and we'll be able to put the market plan together to benefit from improving markets. But, I would say the general mood of that whole team was pretty upbeat as they looked into the future.

And, pretty much what I like about the team we have, is they have so much experience, they've been through these cycles and pretty much this market is playing out as we had planned about six months ago.

And obviously, you never can plan perfectly predicting the future. But we're pretty confident in our position right now and I'll let Ann finish off the question.

Ann Gugino: Yes, so you're right, Jeff. You know, we definitely think swine is on the upswing and we're taking some good market share there. Beef is improving. Milk prices, you know, while they're better, are still a bit soft when you look at the historical averages.

So, that would probably still be our most challenged market. With that said, when you combine it all together, you know, our outlook at this point is that the combined market should grow at about 2%. And then, of course, our goal would be to continue to grow faster than that.

Jeff Johnson: Okay. And then the last question, Ann, for you just on the 6% organic growth. I just want to understand, I think that's number you gave 6.1%. I'm assuming that's just an average of your dental 2.1% and your Companion Animal at 11.7%, it doesn't adjust out to (Mariel) buy/sell stuff and it doesn't adjust for the production animal growth in the quarter. Is that right, it's just a combination of Companion Animal and Dental?

Ann Gugino: Yes. That's correct.

Jeff Johnson: Okay, thanks, guys.

John Wright: Thank you.

Operator: For our next question, we'll go to Steven Valiquette with Bank of America, Merrill Lynch.

Steven Valiquette: Thanks. Good morning, everybody. Thanks for taking the question. You just answered all the questions I had on the vet side of the business. The one other one I had, though, was more of a clarification and I'm sorry if I missed this. But on the - within the EBIT, you know, the dental, the 60 million this quarter versus 67 million last quarter. Is the restructuring charge for the sales force included in that number for this quarter or is that in the corporate line? So in other words, is the 60 versus 67, you know, apples-to-apples without any, you know, charges et cetera? Thanks.

Ann Gugino: Yes. No, if you're looking at the reported number, you're right. There's a line item in our reconciliation between reported and adjusted called restructuring. And that's mostly for the dental piece and that would be in the dental margin. So it was reported in the dental segment.

So, if you look - I think the easiest way to think about it is if you go to our slide presentation, we have a segment on Dental that shows the adjusted margins. And, that would have the severance taken out.

Steven Valiquette: Okay, got it. Okay. All right, great. Thanks.

John Wright: Thank you.

Operator: Once again, if you would like to ask a question, please press star one on your telephone keypad. We'll take our next question from Nathan Robert Jones, with Goldman Sachs.

Nathan Rich: Hi, this is Nathan Rich on for Bob this morning. Scott, I wanted to start with your comments on the changing customer needs and evolving purchasing patterns.

You know, could you give us a better sense of, you know, just what you're seeing in the market now, and how customers might be buying from you differently than they have in the past?

And does their behavior differ whether, you know, we are talking about them buying consumables versus technology?

Scott Anderson: Thank Nathan. I think it's really an evolution of the market. It's different customers, different customer sizes and I think this is one area where Patterson has always been a leader. You know, just from personal experience, if I go back to my days as a sales person in San Francisco, 20 years ago, we were installing electronic commerce systems before the internet. We have been a leader and well over 80% of our consumables come electronically.

That being said, when you think about all of the technology our sales force has in front of us right now, and the productivity opportunities and how customers want to interact with us, both face-to-face, but also digitally, it just leads to a model that we feel is going to evolve. And, really this, at the end of the day, is about putting more opportunity in front of our best sales people and really being easy to do business with for a wide variety of customers.

You know, so we're pretty excited about how the market evolution will really play into the Patterson competitive strengths of great sales expertise, great customer service expertise and a technical service team with vast coverage in North America. You know, so it's really a continued evolution of a strategy that we've really played out over 20 years.

Nathan Rich: That makes sense. If I could maybe just follow up on that, I mean, have you seen any changes in the competitive landscape or, you know, the channels that, you know, your customers are buying through, and is that, you know, any kind of what might have led to you taking these actions?

Scott Anderson: No, I think it's really about Patterson and our customers. And, I think this is important. Let me give you a little context, because I think it's important.

Number one, we have a history of constantly evaluating the best way to leverage Patterson and our sales force in the most effective way for the customer.

And two, I think it's very important to remind everyone, no company in North America has a wider sales and technical service coverage than Patterson. And, we have a history of doing this. So, you know, as a reminder, nearly eight years ago, we took a hard look at our technology sales force, and we felt there was a more efficient way to sell digital technology products that made us easier to do business with.

And, we wanted to create more opportunity for our best sales people. So, we eliminated that sales role and we moved the selling responsibilities to our established team.

In doing so, we dramatically accelerated our digital X-ray sales and Eaglesoft placements. If you look at what we've done over the last eight years, so the bottom line is we created a better customer experience.

The moves we made in June had a really similar underlying strategy. So we feel, you know, we can leverage technology with our sales force and we have an opportunity to become more productive. And we know we're leaders in ecommerce.

So this is really about the customer and leading the market, not reacting to a market. But I want to be really clear and don't want to have anyone misinterpret that our sales force and our service coverage today is our competitive advantage and it is incredibly important to our ongoing strategy. And, bottom line, we're just putting our best people in front of more opportunities to drive the market and drive customer success.

Nathan Rich: Great. Thanks for the comments.

Scott Anderson: Thanks Nathan.

Operator: That does conclude today's question and answer session. At this time, I turn the conference back to Mr. Scott Anderson for any additional remarks.

Scott Anderson: Thanks (Don), and thanks everyone for joining us to today. Again, we're optimistic as we move into Fiscal 2017. And, we look forward to updating you on our next quarterly call.

Operator: This does conclude today's conference. Thank you for your participation. You may now disconnect.

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