PATTERSON COMPANIES, INC.

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9:00 am CT

Operator: Good day, ladies, and gentlemen. Welcome to the Patterson Companies First Quarter Fiscal 2016 Earnings Announcement. Today's conference is being recorded. At this time, for opening remarks and introductions, I'd like to turn the conference over to Miss Leslie Nagel. Please go ahead, ma'am.

Leslie Nagel: Thank you, Catherine. Good morning, and thank you for participating in Patterson Companies Fiscal 2016 First 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 differ materially 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 first quarter, which exclude the impact of one-time transaction related costs, deal amortization, non-recurring training costs related to our IT initiative, tax costs related to cash repatriation and 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 and foreign currency impact can be found in this morning's press release.

Today's earnings announcement and our discussion also reflects the realignment of our reportable segment, which organizes our legacy Veterinary business and recent acquisition into one Animal Health segment, and moves certain centralized shared functions that were previously embedded within the Dental segment into a separate corporate segment.

Be advised that this call is being recorded and will be available for replay starting today at noon Central Time for a period of one week. With that, I'd like to hand the call over to Scott Anderson. Scott?

Scott Anderson: Thank you, Leslie. Welcome everyone to today's conference call. Our fiscal 2016 first quarter marks the beginning of the transformation of Patterson Companies. Over the past several months, our goal is to fundamentally shift the Company's long-term growth profile, began to take shape, and culminated in two transactions; the addition of Animal Health International and the pending sale of Patterson Medical. I am pleased to say that the thoughtful measured approach we have taken to this transformation has allowed us to stay focused and continue to execute on our plan. We demonstrated this in the 2016 fiscal first quarter.

During the quarter, we began the all important work of starting to unify Animal Health International and our legacy Patterson Veterinary operations. This process has produced some important observations and reconfirmed our conclusions after our due diligence was complete. In particular, it's apparent that our organizations clearly share the qualities that will be absolutely essential to success. We found a deep commitment to professionalism and delivering an exceptional customer experience.

The Leadership Team at Animal Health International is collaborative, strategic, and results driven, which has helped to make our early integration efforts very smooth. And like our Team, they have a highly motivated Sales Team that's driven to succeed. Today, we have a clear integration and synergy roadmap that matches our assumptions at the outset of the transaction and we believe we are executing against it.

During the quarter, we held successful national sales meetings for both the companion animal side of the business where we integrated our two sales forces and the production animal side. Further, we've made significant progress on the cross-selling front. We are already seeing the benefits of a broader product portfolio for the new companion animal sales reps and Patterson Veterinary sales reps who call on mixed practices. Given that we are only two months into the integration process, I am very pleased with our progress and momentum.

During the quarter, we also signed a definitive agreement for the sale of our Patterson Medical business. While the transaction has not yet closed, the sale will allow us to dedicate our entire focus to the two highly promising end-markets we have chosen. I want to take a moment to extend my gratitude to the Management and employees of Patterson Medical. They delivered solid performance in the quarter and we look forward to seeing Patterson Medical thrive under its new owner. We expect the sale of Patterson Medical to close in the second quarter.

In terms of the Company's financial performance during the quarter, we came in on plan. Clearly, there are many moving parts to the financial picture, as Ann will clarify later. Consolidated revenue from continuing operations rose 24% on a constant currency basis to $1.1 billion. Adjusted earnings per diluted share from continuing operations improved 18% to 47 cents.

The market fundamentals we have seen for the past several quarters continued in Q1. Stable to strengthening market conditions, the gradually improving job market, and the long-term trend toward ever higher global animal protein demands, give us confidence that we are taking on this transformation at the right time and that it will create both near and long-term growth.

Now, I'll take a look at our segments, starting with dental. Dental which represents roughly half of our total sales going-forward, consolidated sales performance on a constant currency basis reflected a number of items. Looking at dental consumables, sales growth excluding the extra week was 3.8% in constant currency. We are confident in our ability to expand this growth.

On the equipment side, you'll recall that our fiscal 2015 fourth quarter was particularly strong, and we took full advantage of the heightened demand. Equipment demand softened slightly in the first quarter and during the period we invested in further building our relationships with new core equipment manufacturers and training our sales force.

Of course, our relationship with A-dec remains strategic to our future growth plans, but we are bringing to market a wider range of offerings, including new relationships with companies such as Pelton & Crane, the Belmont Co., and the Sirona line of treatment centers in traditional equipment this fall. These, along with our existing partners, gives us a great portfolio of products to present to our dental customer as they update their practices. It's important to remember that approximately 2/3 of our equipment sales typically occur in the back-half of our fiscal year. We are in the strong position to meet the demand we anticipate in the fall and winter buying season.

Patterson remains the partner-of-choice for dentists investing in their practices. We are excited at the prospects of this broader portfolio of equipment offerings and believe it will stimulate additional growth in quarters to come.

We are certainly pleased with our growth during the quarter and technology-oriented sales, and at the same time, are very excited as we move into the balance of our year and look forward to the CEREC 30 event coming in September. Over 5,,000 dental professionals will join us in Las Vegas for this event. We remain confident that dentists continue to see technology that improves patient experience and clinical outcomes as a critical and high priority area of investment. We believe that our offerings and the continued healthy conditions of the dental market position us well for continued growth and market share gains.

One of the additional initiatives we have undertaken to boost our effectiveness in dental is to restructure our Management Team. Paul Guggenheim is now Chief Executive Officer of Patterson Dental, with responsibility for all North American dental operations. Dave Misiak, formerly Vice President of Sales, now serves as President, U.S. Dental and leads our U.S. Sales, Branch and Technical Service Infrastructure. John Bettencourt, formerly Vice President of Core Equipment and Technical Service, is focusing purely on our Next Generation Systems initiative as Vice President of NGS and Organizational Change Management. John will report directly to me. His extensive background with Patterson will be critical as he takes on this vital role in assisting our technology transformation over the coming years.

Josh Killian, formerly Vice President of Digital Technologies, is serving as Vice President of Marketing for Technology and Equipment. And Tim Rogan, formerly Vice President of Merchandise, is now Vice President of Strategy and Organizational Effectiveness for Patterson Companies, reporting directly to me. Tim is responsible for driving the Company-wide strategy process and key strategic initiatives to make the most of the natural synergies that exist between our dental and animal health businesses. These changes are being made to improve our performance and create further development opportunities. We continue to benefit from a deep Management bench and look to build on that strength in the years to come. Overall, our offerings in dental, operational discipline, and formidable sales force to advance make us encouraged by what we can achieve in this segment over the fiscal year.

Moving on now to Patterson Animal Health. By adding production animal to our revenue mix, we have significantly diversified the market dynamics and growth drivers that will contribute to our success. Like in dental, we are well-positioned today in animal health to more fully capture the opportunities before us. In companion-animal, the trends of both stable to improving market conditions and the rise in pet ownership continue. Add to this the long-term global acceleration in demand for animal protein and we have now more catalyst for growth and diversified sources of revenue to balance out some of the volatility that can occur.

Animal Health sales were up 48% on a constant currency basis, mainly reflecting the contribution from Animal Health International. While we are just now beginning the process of setting the bar for performance and growth in the production animal portion of this segment, we are pleased with the early results produced by Animal Health International. These results were solidly inline with our internal plan and we believe that we are taking share in the production animal market.

Excluding the acquisition, sales rose marginally due to partially offsetting factors. We are pleased with the solid constant currency organic sales growth in the U.S. and stability in the U.S. consumables during the period. However, this growth was offset by a flea and tick season in the U.K. that was less intense this year than last, which ultimately provided the tougher comparable.

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 15% in local currencies. We continue to make progress in our new relationship with Abaxis, a market leader in point-of-care blood instrumentation and consumables for the veterinary market and medical and research customers. As you know, IDEXX adopted a direct sales model starting in January that impacted the entire industry. Patterson is selling the full-line of Abaxis veterinary diagnostic products, including external reference lab services and in-clinic testing, and we are pleased with the stability in our Abaxis placements. All-in-all, we are where we want to be in our Animal Health segment and excited about the prospects ahead.

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

Ann Gugino: Thank you, Scott. As Scott mentioned, the overall financial performance of Patterson Companies came in on plan for the quarter. Of course, we have some added complexity in our results related to a number of items. Therefore, I will be concentrating my remarks on sales and adjusted results from continuing operations to help focus on the transformed Patterson Companies.

It’s helpful to run through the main items that shaped the character of the quarter and the year-over-year comparison. They are as follows: The definitive agreement to sell Patterson Medical resulted in the reclassification of this business segment as a discontinued operation at the beginning of the 2016 fiscal year. Accordingly, results from Patterson Medical for the entire quarter have been excluded from our EPS.

The closing our Animal Health International acquisition added a month and a half contribution to our Animal Health segment. As I’ll discuss later in my remarks, the timing of the closing of the acquisition and the sale of Patterson Medical changes the basis for our fiscal 2016 guidance. Sales for the 2016 quarter include the impact of an additional week. Where appropriate, I will refer to organic sales within the segment discussions to provide a more normalized view of sales performance. The extra week added roughly five to six percentage points of incremental growth for the quarter. Reported results for the quarter reflect tax costs to repatriate about $200 million in foreign cash. Lastly, my discussions of adjusted EPS exclude deal amortization, deal-related one-time costs, non-recurring IT training expenses, and the cash repatriation tax costs, I just mentioned.

Now to our top and bottom-line, reported consolidated sales from continuing operations totaled $1.1 billion, up 24% on a constant currency basis. This reflects the contribution from recently acquired Animal Health International. Going-forward, between 15% to 20% of our total revenue will come from international sources. On a consolidated basis, currency translation reduced sales by 2.4%.

On the bottom-line, adjusted EPS from continuing operations totaled 47 cents. This excludes 10 cents of earnings per share from the discontinued medical operations and includes 1-1/2 months of operations from Animal Health International.

Now a look at results in dental, in this segment, my reference to organic sales excludes the impact of the extra week. Organic sales in dental improved about 2% on a constant currency basis. On the same basis, consumables grew 3.8%, which is consistent with the prior three quarters.

As Scott noted, we are excited about the new core equipment offerings we are bringing to market and our technology sales in the quarter, especially demand for CEREC by new users. CEREC sales were up high-single digits in constant currency. But as Scott mentioned, we experienced some softness in overall equipment this quarter, down 1.9% on a constant currency basis. This reflects some disruption from adding new manufacturing relationship to our offerings. Due to factors such as time from order to installation, which can span several months, the extra week has little impact on equipment sales.

Turning next for Animal Health segment. Here references to our organic sales will exclude where relevant the extra week, the contributions from Animal Health International, and the impact of the diagnostic manufacture change to Abaxis.

On a constant currency basis, organic sales in the segment were up nearly 2% for the quarter, mainly driven by two factors. First, organic sales from the U.S. companion legacy animal business expanded 5.1%. This, however, was partially offset by a 2.3% decline in constant currency organic sales in the U.K., which faced a tougher comparable this year due to last year's more intense flea and tick season.

As Scott mentioned, we were pleased with the contribution from Animal Health International during the period and they are performing on-plan. Sales from Animal Health International were $171.9 million in the quarter. Adding in the contribution of Animal Health International, consolidated reported sales grew 44%. The acquisition contributed about 2 cents of adjusted EPS in the quarter.

Now, turning to margins, it's important to note that excluding the acquisition, Patterson Companies expanded operating margins by 60 basis points during the quarter due in part to leverage from the extra week. When you add in the acquisition, operating margins were largely flat and on-plan.

Consolidated gross margin was 25.2%, down 145 basis points from the same period last year, reflecting the acquisition of Animal Health International. Excluding the acquisition, consolidated gross margins expanded by 40 basis points. From an operating leverage standpoint, Patterson Companies gained 145 basis points of leverage on expenses mainly due to the acquisition. Excluding the acquisition, the business gained 20 basis points of operating leverage. Operating profit including the acquisition increased 20.7%. In Dental, operating margins improved 30 basis points year-over-year.

In the Animal Health segment, we expect operating margins to improve as the year progresses. Operating margin within the Animal Health segment declined 60 basis points, mainly due to two factors. The first is a function of the sales growth in the U.K. reflecting the tougher comp that we discussed. The second is due to a bad debt write-off associated with one large customer in the U.K. We anticipate full-year operating margins on an adjusted basis of 4% to 5% in the Animal Health segment. As Scott noted, we are executing on a solid integration and synergy plan and fully expect to achieve between $20 million and $30 million in synergies over a three-year period.

Now, I'd like to discuss cash repatriation. The acquisition of Animal Health International and the sale of the medical business created a unique opportunity to efficiently repatriate excess foreign cash balances. We are repatriating roughly $200 million in cash from both the Patterson Medical Group and Patterson Dental Canada. Performing all of these repatriations within the same fiscal year will allow us to gain tax efficiencies with estimated tax savings in the range of $15 million to $20 million.

It also allowed us to pay down $100 million on the revolving line of credit that was needed for the Animal Health International acquisition and save on future interest expense. The full cost of the repatriation was recorded as additional income tax expense in the current quarter and is about $12 million. For the full year, we expect a more normalized income tax rate of about 35%.

A few balance sheet and cash flow items, operating cash flow from continuing operations in the quarter generated $8 million of cash versus $68 million in the prior period. This swing is due to the timing of quarter-end and the extra week, which increased accounts payable disbursements between this year's first quarter and the prior year's quarter. We 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.

First quarter cap ex totaled $17.1 million and included investments for normal replacements, as well as our corporate-wide information technology initiative. For the full of fiscal 2016 year, we are currently estimating cap ex of approximately $60 million to $70 million. We also remain committed to our capital allocation strategy and the full range of options for delivering shareholder value, including share buybacks, dividends, and additional investments in our businesses.

I'll wrap up with a discussion of fiscal 2016 guidance. Today, we are updating our guidance to reflect the continuing operations basis on which we now report. Previously, we have provided an adjusted earnings guidance range for 2016 of $2.40 to $2.50 per share, a range that was predicated on full-year contributions from dental, our legacy Veterinary business, and Patterson Medical.

As such, this range excluded the impact of the Animal Health International acquisition and the planned sale of medical. Excluding 42 cents to 44 cents per share for the discontinued medical business, Patterson's prior adjusted guidance on a continuing operations basis, would have been $1.98 to $2.06 per share. With these transactions now completed or pending, we are changing the basis for our guidance. With the June closing of the acquisition, we are now including 10-1/2 months of operations from Animal Health International.

So, on a continuing operations basis, our adjusted earnings guidance range for fiscal 2016 increases to $2.40 to $2.50 per share. The guidance range assumes stable North American and International markets, it includes the impact of an extra week in fiscal 2016. Our guidance range excludes transaction related costs, integration expense and dealer amortization, non-recurring IT training costs, and cash repatriation. All-in-all, while I know this is a lot to process, we are performing as anticipated, and look forward to the balance of the year as a transformed Company focused on dental and animal health.

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

Scott Anderson: Thanks Ann. The success of any transformation really hinges on the commitment, enthusiasm, and ambition of those involved. These qualities have to come together right at the outset. I'm deeply proud to say that the employees and leaders of Patterson Companies and Animal Health International have and continue to rise to the occasion and stay focused on success.

Many of you will get the opportunity to hear from these leaders who are transforming Patterson Companies this October. We have scheduled an Analyst Day in New York on October 14. There is more information to come but please mark your calendars.

So far in fiscal 2016, we have achieved some very important early milestones that will be crucial to leveraging the combined strengths of our new organization and accelerating the growth we aim to achieve.

In Dental, the work we are doing to broaden our equipment offerings and enhance our performance, combined with our industry-leading salesforce puts us in a solid position for growth this year. In our Animal Health segment, our shared experience with the Animal Health International Team reaffirms for us that they are the ideal partner with whom to build a comprehensive platform in the production animal industry.

They immediately bring to Patterson extensive leadership in the production animal space, diversify our revenue mix, and expose Patterson to additional highly compelling market opportunities. Their expertise in serving beef, dairy, cattle, and swine producers complements the strengths both companies share in the companion animal and equine markets.

Operationally, we continue to move forward with our enterprise resource planning initiative. We remain on-track for pilot testing of this new system in the fall. Animal Health's International experience with its own such initiative will be an invaluable resource as we move through pilot, towards implementation. We are confident that as we go forward, our concentration on thoughtful integration, everyday execution, and organizational effectiveness will bear itself out in our results.

Now with that, we'd like to take your questions. I'll turn the call back to Catherine. Thank you.

Operator: Thank you. And ladies and gentlemen, if you'd like to queue up for a question or comments, please press star, 1 on your telephone keypad. If you're on a speakerphone, please pick-up your handset and make sure you're mute function has been turned off to ensure your signal reaches our equipment. Once again, ladies and gentlemen, that's star, 1 for questions.

We will take our question first from Kevin Ellich with Piper Jaffray.

Kevin Ellich: Good morning. Thanks for taking the questions, guys. Scott, just starting off with the Animal Health segment, you know, could you give us a little bit more color as to what's going on with both the livestock and companion animal trend? And, I guess how much impact did we see from the diagnostics manufacturer change this quarter on an apples-to-apples basis, and then can you give us more detail on the bad debt write-off in the U.K. that you talked about?

Scott Anderson: Well, I'll talk about the first two and then I will have Ann give a little more color on the bad debt. We're seeing really good market trends across all segments and more than anything I would say strong execution in our U.S. companion business and with the new production business. You know, a big piece of acquisitions is culture fit and I will tell you as I spend a lot of time with our sales people at both the national sales meeting for our companion group where we put the two sales forces together and then with our new sales reps.

I couldn't be more excited about the quality of people and really an excitement throughout the organization about the size and scale and scope we have and the ability really to leverage so many different capabilities of Patterson Companies to really increase the experience for customers. And, I've also had a chance to talk to some of our key customers about what Patterson brings to the table. So, on that I'm excited.

The diagnostic front, I would say we continue to make progress and I've said many, many times, this will be long-term game for us. We're absolutely committed to being a major partner for Abaxis and driving those technologies. And, I would say we're pleased, but there's still a long runway ahead and room for improvement on execution in our front and we're right on point on that. I'll turn it over to Ann for some color on the bad debt.

Ann Gugino: Okay. Just to quantify, Kevin, you asked for the quantification of the impact of the diagnostic change?

Kevin Ellich: Yes.

Ann Gugino: Net, if you pull out the net impact of the diagnostics and the switch, it hurts reported revenue growth by about 5% or 5 percentage points. And then, with regard to the bad debt, it was a $4 million write-off in U.S. dollars and it reduced the Animal Health segment margins by about 70 basis points. You know, I would say it was with one large customer as I mentioned in my remarks and I would say there weren't really any huge red flags. The business was never delinquent because they were actually paying or we were deducting directly from their bank account.

With that said, you know, anytime you have an expense like this you always take the opportunity to review your processes and controls and improve them where you can. But I would just say all businesses incur some bad debt expense in the normal course of business, it's just a risk of doing business. But I think the difference in the U.K. Animal Health business is that there's a greater concentration of large customers. So unfortunately, when a customer there defaults, it's a little more impactful and painful unfortunately.

Kevin Ellich: And then, has that situation been rectified? Are you seeing any other potential issues in the U.K.?

Ann Gugino: Yes. No, so that issue's been rectified and it's a non-issue going forward. And, I would say that this was pretty isolated and unique to that customer. It's not prevalent across the market in anyway.

Kevin Ellich: Great and then just one quick one, Scott, on dental. So, you mentioned equipment, I think it was little soft during the quarter, wondering if you've seen any rebound in the equipment business and kind of what we should expect for the year?

Scott Anderson: Yes. I would say we are very confident about the full-year. Our sales force is very excited as they're getting trained on new products and at the same time, I think we've got a great marketing plan with our largest partner, A-dec. I think if you look industry-wide at sort of results over the summer time, there was some softness on the core side. But, I feel like we're really - have a lot of potential tail winds behind us including the Section 179 issue that impacted us last year. I think that will be rectified and then a lot of momentum coming out of CEREC 30.

So, you know, I would say we are very cautiously optimistic about the dental equipment scene going-forward. As we've always said, there is a correlation between consumable growth and the stability of dental practices with our customers' willingness to invest and the North American markets are very stable and we're continuing, I think to see some nice tail winds on consumables that we're seeing right now in the summer time months, as well.

Kevin Ellich: Great. Sounds good. Thank you.

Scott Anderson: Thanks, Kevin.

Operator: Thank you. And, we'll go onto our next caller, Michael Cherny with Evercore.

Michael Cherny: Good morning, guys, and thank you for all the details on moving pieces. That being said, I just want to dive in a little bit, make sure I understand everything. So, your guidance range stayed the same, in terms of the pure headline numbers. Obviously, you called out the 42 cents to 44 cents on medical. If I'm doing the math, that's the negative. The positive adjustments are on AHI and then also the shift into what I believe is a pure cash EPS number. Is there any way you can give us on the positive side, what gets you back to that $2.40, $2.50 number in terms of breaking out AHI versus the other moving pieces?

Ann Gugino: Sure. And, you're right. First of all, I just want to kind of start by backing up and saying, you know, when we originally announced the two transactions, we said that the divestiture of medical and the acquisition of AHI would be neutral to earnings, and that really was predicated on the simultaneous closing of the two transactions. So, since the closings did not close simultaneously and they were staggered, that cost us or hurt us by about 5 cents to 6 cents.

So, medical's pulled out for a full 12 months, that's the 42 cents to 44 cents and then AHI is only in for about 10-1/2 months. And, I would quantify that, net of interest expense and synergies, but excluding deal amortization at between 36 cents and 39 cents, and then the prior deal amortization is about 7 cents. So, the way I would characterize it is the prior deal amortization helped us by 7 cents and then the timing of the transactions has hurt us by about 5 cents to 6 cents and you net those two together and yes, you get to the same range.

Operator: Thank you. And, Robert Jones with Goldman Sachs. Please go ahead.

Nathan Rich: Hi. This is Nathan Rich on for Bob this morning. Just a follow-up on dental equipment. Curious to know if you saw any delay in purchasing ahead of Sirona's launch of their new imaging system, which I believe is coming up in the next several months, and if so, any quantification on how that might have impacted equipment results?

Scott Anderson: Yes. I think there's definitely excitement about the ORTHOPHOS SL project that'll come out this fall. It's hard to quantify any pull-back in the market. And, I would really say that would be one of a, sort of a net catalyst going forward. All-in, our digital business performed well, but not great, and I think there could be some reasoning of some delay because of ORTHOPHOS SL. So, as I said to Kevin in the prior question, we really like how things are stacking up as we move into sort of the key selling season.

Nathan Rich: Great. Thanks and then just a question on guidance. Could you just kind of go through what you're assuming in terms of both debt pay down and then any share repurchases that you're thinking about for fiscal '16?

Ann Gugino: Sure. The proceeds from medical will go directly to pay down the debt and right now we're anticipating the net proceeds at about $670 million to $680 million. And then, the rest we'll leave outstanding on the term loan just because it's a pretty attractive interest rate, so I think that leaves around $325 million outstanding under the term loan. The interest expense going-forward after we pay that down would be just under 2%, I believe.

And then, as far as share repurchases, I think the expectation in the intermediate term would be that we plan to get back into the market as soon as we can. I'm just throwing out the reminder that we're still technically out of the market until medical closes in the second quarter. With respect to guidance, that share repurchase isn't specifically baked in, but I would say it's a lever that could help us get to the upper end of the range.

Nathan Rich: Great. Thank you.

Operator: Thank you. Our next question comes from John Kreger with William Blair.

Robert Napoli: Hi. Good morning, guys. It's actually Robby in for John. Thanks for taking the question. Just the first one on the Dental business. So, how do the margins of the new equipment lines that you're bringing on compare to the historical lines, and are there any special promotions planned as you ramp those throughout the remainder of the year?

Scott Anderson: Yes, Robby, they would be very consistent with our historical margins and I would say there would be nothing incremental in terms of marketing expense versus what we've historically done.

Robert Napoli: Okay. Thanks and then, I know, in recent quarters you've talked about some performance and larger sales with large customer groups. How had - did that trend in the quarter? Did you see any meaningful difference between growth trends, either on the consumable side or equipment side with large versus small practices?

Scott Anderson: Yes. I would say, our growth was consistent to probably the fourth quarter, but our Special Markets division is very active in the marketplace and we definitely look at that segment as a growth opportunity, not only through the rest of our fiscal year, but beyond. So, I would say, we're very pleased with the reception we've gotten in the market.

Robert Napoli: Great. Thanks very much.

Scott Anderson: Thanks, Robby.

Operator: Thank you. We'll go to Steven Valiquette with UBS.

Steven Valiquette: All right, thanks. Good morning, Scott and Ann. I guess, for me really just a couple of questions on some of the margin trends. I guess first, the questions are kind of inter-related, but the first one is, for these the one-time items in the quarter, the transaction related costs I guess the integration expense, the non-recurring IT training costs. Were those all essentially in your operating expense line or SG&A line and hopefully, none of them were in your COGS?

I'm really just trying to figure out whether or not the 25% gross margin as reported in the quarter is kind of a good run rate, just giving all the moving parts? But, also you know, if we do want to back out some of those one-time items, you sort of gave us obviously, the net income result, but if we want to pull some of those out of the P&L and the various line items, I just want to make sure I know exactly where we would pull those out? Thanks.

Ann Gugino: Yes. Sure. I'll take that. So, yes, all of the one-time items that we listed are SG&A items. They differ by segment, so I would say a lot of the transaction costs would be pulled out of our corporate operating margin, when you think about that segment operating margin, and then the deal amortization would be allocated to the new Animal Health segment, but all out of SG&A. And, I think, the gross margins are very, a pretty good run rate, although, obviously, with the softer equipment sales, I would just point out, when you think about going-forward, we're expecting the equipment growth to accelerate in that mix because there is 30% gross margin on equipment versus say in the 35% range for consumables. That 5% delta can sometimes from a mix perspective, hurt the gross margin rate, so I would just - that's the only caution I would give you as you're moving that run rate forward.

Steven Valiquette: Okay. And, that was the other quick question too. Was the - with your new segment breakdown you had roughly that $10.5 million of corporate expense in the quarter, and I was just curious if that's a good run rate to use going-forward or where there is some one-time things in there is such that there might be different run rate on that line?

Ann Gugino: Yes. So, there are some one-time costs in there. And, as I mentioned, you know if you think about that breakout, it's really the transaction-related costs of the professional fees. I think we labeled it.

Steven Valiquette: That's really all of it then?

Ann Gugino: Most of it, yes.

Steven Valiquette: Would that corporate expense theoretically be zero going-forward then, if there's no sort of one time ((inaudible)).

Ann Gugino: No. No, it's not zero. There's some, it's not a 100% of the transaction cost, that was just kind of a rough estimate. I do not have the corporate segment numbers in front of me, but what I can tell you is when you look at it, it should increase at about a 5% rate on a normalized basis. And, I think there's about - we're estimating for the full-year to have about $18 million to $20 million of one-time costs hitting that segment.

Steven Valiquette: Okay. All right. That's helpful.

Ann Gugino: Yes, but I would tell you it's not zero for the current quarter.

Steven Valiquette: Okay. All right. That's great. Yes, we can follow-up maybe a bit more offline, it's probably little too granular for the earnings call. But okay. All right. Thanks.

Ann Gugino: I just don't have all the detail in front of me. So, yes I'll give you a call.

Steven Valiquette: Okay. All right. Thanks.

Scott Anderson: Thanks Steve.

Operator: Thank you. And again, ladies and gentlemen, that's star, 1 for questions. We'll continue onto Jon Block with Stifel.

Jonathan Block: Great. Thanks guys and good morning. Yes, a lot of moving parts, so maybe just one, you know, dental seemed to have some more statements, sort of added consumables in other, and I think that falls last year's added consumables into equipment when you should have reclassified some of the hand pieces. I know the adjustments are being made, I believe to both periods, but I guess, sort of two questions. One, are we done there with the moving parts within dental? And then two, is it all aiding the consumable reported growth rate because you're essentially just lowering the base or am I not thinking about that correctly?

Ann Gugino: Yes. Jonathan, so it's really office supplies that we reclassified out of consumables and into other and we restated the prior year. To answer your question, yes, we're done. We don't anticipate having any more moving pieces. I do not believe that it aided consumables growth in any way. It's just too small to really move the number.

Scott Anderson: Yes. I think it just gives you more consistent look for the industry to you know really we're normalizing how most people would classify the consumables category.

Jonathan Block: Got it. Perfect. And then Scott, you went down the road a little bit earlier on dental equipment. I guess that, at least relative to our estimates, is where some of the weakness was. But, was there just a little bit more disruption with the manufacturers specific to the quarter? And, do you believe you're fully through that and guys are trained on all options out there? And sorry, sort of the last question there, I think the last quarter you said, you expect equipment to accelerate from fiscal '15s call it 3%, 4% range. Is that still intact even with the 1Q numbers now in-place? Thanks, guys.

Scott Anderson: Yes. I would say absolutely. You know as a reminder, the Q1 is the lowest volume quarter. I would say from the macro tailwinds of consumable business strengthening, job market improving, really interesting a year ago calendar fourth quarter, our third quarter with the Section 179 effect, and then an increased portfolio, I would tell you we're very comfortable that the back half of the year could be particularly strong.

And, as a reminder and I've said it in my opening remarks, 2/3 of our equipment is sold in our last two quarters. So, I wouldn't say we're changing our story at all on dental equipment and it potentially could be an upside improvement to the business if we outperform.

Jonathan Block: Perfect. Thanks, guys. Ann, we'll bother you offline for some of the details. Thanks.

Ann Gugino: Sounds good.

Scott Anderson: Thanks, John.

Operator: Thank you. And we'll now hear from Robert Willoughby with Bank of America.

Robert Willoughby: Thanks. Scott, do you have any plans for that ((inaudible)) office supply business? Is that something you'll hold onto or is there value in parting with that? And then, just secondarily, more broadly, you haven't commented on M&A in this call, still in the cards for you going-forward?

Scott Anderson: I would say on the office supply business, it's a strong cash flow business. It's a nice part of our value proposition and I wouldn't anticipate that we would look to divest that. On the M&A front, I would say we're going to take a little short-term breather here. Obviously, we've digested a lot. But, I would say from a balance sheet perspective, our ability to act on really good smart strategic acquisitions is absolutely there for us.

So, our roadmap is still in-place. I would say sitting here today with 95% plus of our profit coming from North America, I think it positions us in the short-term very well, but also speaks to our growth opportunities as the Company, over the next decades, if and when we expand in these two verticals internationally.

Robert Willoughby: Okay. Thank you.

Scott Anderson: Thanks Bob.

Operator: Thank you. And, I would now like to turn the conference back over to Mr. Anderson for any additional or closing remarks.

Scott Anderson: Thank you, Catherine, and thanks for joining us today. Again, the transformation of Patterson is off to an excellent start. And, we really look forward to seeing all of you at our upcoming Analyst Day in New York and giving you a deeper look into the Company. And, we also look forward to updating you 90 days out as to our progress. Thanks for your time this morning.

Operator: Thank you. And again, ladies and gentlemen, that does conclude today's conference. Thank you all again for your participation.

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