

Scott P. Anderson
President & Chief Executive Officer

- Good morning and thanks for participating in our first quarter earnings conference call.
- Joining me today is Steve Armstrong, our executive vice president and chief financial officer.
- At the conclusion of our formal remarks, Steve and I will be pleased to take your questions.
- Since Regulation FD prohibits us from providing investors with any earnings guidance unless we release that information simultaneously, we provided financial guidance for fiscal 2012 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 to our first quarter results, consolidated sales increased approximately 6% on a comparable basis to \$847.4 million.
- Comparable basis sales exclude the estimated impact of an extra week in the first quarter of fiscal 2011, which negatively affects sales growth for the current period by approximately six to seven percentage points.
- Reported sales in last year's first quarter totaled \$849.8 million.
- Earnings in this year's first quarter were \$48.6 million or \$0.42 per diluted share, which included incremental non-cash expense of \$0.03 per diluted share related to our Employee Stock Ownership Plan, or ESOP.
- Excluding this ESOP-related expense, first quarter earnings were \$0.45 per diluted share.
- Patterson reported earnings of \$53.9 million or \$0.45 per diluted share in the first quarter of fiscal 2011.
- As you may recall, we initially discussed this ESOP expense change in our fourth quarter earnings release and conference call.
- Steve will also touch on this topic during his remarks.
- Now, for the next few minutes, I will provide some operational highlights of our three businesses.
- Sales of Patterson Dental, our largest business, rose approximately 4% on a comparable basis to \$533.4 million in the first quarter.
- Sales of consumable supplies grew modestly at 2% on a comparable basis, which we believe reflects the continuing impact of a sluggish economy.
- However, our various new-technology equipment lines recorded strong, double-digit sales growth as dentists are continuing to invest in the digital conversion that is transforming the practice of dentistry.
- Sales of CEREC, the leading dental chair-side CAD/CAM product in the market, reflect the results of a trade-up program that ran in the U.S. during the quarter.
- A similar program was running during the first quarter of the prior year.
- Patterson Dental is the leading distributor of new-technology equipment by a significant margin, and we see ongoing growth opportunities in this key area.
- First quarter sales of Patterson Medical, our rehabilitation supply and equipment unit, rose approximately 12% on a comparable basis to \$134.5 million.
- Internally-generated sales increased 1% on a comparable basis, while the June 2010 acquisition of the healthcare businesses of DCC Healthcare and favorable foreign currency adjustments accounted for the balance of the year-over-year sales growth.
- We believe Patterson Medical continued to gain market share in the quarter.
- However, a number of factors restrained the unit's operating results, including regulatory uncertainty stemming from the nation's new health care legislation that, we believe, caused domestic dealer sales to soften in the first quarter.
- In addition, austerity measures taken by the U.K. government continued to affect the sales performance of our U.K.-based Homecraft division.
- The integration of the DCC businesses has been completed, and no significant incremental expenses related to this transaction are anticipated going forward.
- In all, we continue to believe Patterson Medical is well positioned, domestically and internationally, as an ongoing growth driver of our overall performance.

- Sales of the Webster Veterinary unit increased approximately 8% on a comparable basis from the year-earlier period to \$179.6 million.
- Webster's growth was driven by improved sales of both consumables and equipment and software.
- We plan to continue investing in Webster's relatively new equipment and service business in fiscal 2012.
- In addition, Webster is investing in an expanding range of technology offerings aimed at strengthening the profitability of veterinary practices and forging stronger relationships between pet owners and their veterinarians.
- The technology solutions that Webster is implementing include online medical records, online client education, e-marketing tools, electronic ordering for medications integrated into a home delivery capability, and digital imaging software.
- We believe these technology initiatives will further strengthen Webster's competitive position going forward.
- As we announced in this morning's release, Webster has acquired American Veterinary Supply Corporation, a full-service veterinary distributor located on Long Island.
- With sales of approximately \$25 million and serving approximately 2,000 companion-pet veterinary practices and hospitals, AVSC has established a significant market presence in the New York metropolitan area.
- AVSC, which employs 14 field sales representatives, will be operated on Long Island as a Webster branch office.
- We expect AVSC to be integrated into Webster relatively quickly.
- Finally, reflecting our strong financial condition, Patterson has used internally-generated cash to repurchase \$157 million of our common shares under our new 25 million share, five-year buyback authorization, which was approved in March of this year.
- This includes approximately \$60 million of stock that was purchased during the first fiscal quarter.
- We have now completed the 10b5-1 plan that we had previously entered into with a broker.
- Looking ahead, we will likely continue encountering some economic and regulatory headwinds as we move deeper into fiscal 2012.
- However, as we stated in this morning's release, we are reiterating our previously-announced fiscal 2012 financial guidance of \$1.90 to \$2.00 per diluted share, which includes an estimated \$0.12 per share impact from the non-cash ESOP expense.
- Our businesses are positioned to capitalize upon their market opportunities...we are generating strong operating cash flows, providing us with ample resources for supporting our various growth initiatives...and most importantly, our people are strongly committed to our goals and strategies.
- For these and other reasons, we are optimistic about Patterson's future.
- Thank you. Now, Steve Armstrong will review some 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.
- On a consolidated basis, the residual impact of the acquired DCC assets accounted for 1.3 percentage points of our revenue growth for the quarter, while currency exchange had a positive impact of 80 basis points.
- We estimate the impact of the extra selling week in last year's first quarter, as Scott noted, reduced sales growth in this year's first quarter by approximately 6 to 7 percentage points.
- That impact was not consistent across the various sales categories.
- Consumable sales were more heavily impacted by having one less selling week, while equipment sales and certain services were affected to a smaller extent.
- Moving on to our consolidated gross margin, we saw a modest decline of 20 basis points from the prior year.
- The gross margins of the Veterinary and Medical segments both incurred some pressure in the quarter as product mix and rebates unfavorably impacted their results.

- The software upgrade that Patterson Medical introduced in last year's first quarter resulted in a larger percentage of high-margin software revenues, which had a positive impact on the unit's gross margin in the prior period.
- Webster Veterinary had lower vendor rebates in the current period compared to the prior year.
- Dental segment gross margins improved by 20 basis points in the quarter.
- Turning to our operating expense ratio, two factors resulted in a negative 70 basis point effect: the increased expense from our ESOP and the loss of leverage on our fixed cost structure as a result of having one less week of revenue in this quarter in comparison to the prior year.
- As we discussed in our fourth quarter conference call, the method for recognizing ESOP expense is transitioning under the relevant accounting standards to a market value approach as opposed to the historical value for the shares that are allocated to the participants each year.
- This creates a comparability issue between future and past periods, since a new expense baseline has been established.
- The incremental non-cash expense for fiscal 2012 is expected to be approximately \$25 million, or \$0.12 per diluted share.
- Our first quarter operating margins were 10.0% for Dental, 13.2% for Medical and 6.0% for Veterinary.
- Our income tax rate reflects the benefit of 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 36.5% to 37%.
- We generated cash flow from operations of approximately \$67 million in the first quarter, compared to \$23 million in the year-earlier period.
- As Scott noted, approximately two million shares were retired under our stock repurchase plan during the quarter.
- A quick 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 paid down in the first quarter of the subsequent year.
- Also, we generally increase inventories in interim periods to maintain high service levels before reducing them to minimize our year-end LIFO expense.
- Our DSO stands at 43 days, compared to 44 in the prior year, while inventory turns are 6.7 compared to 7.1 a year ago.
- With that, I'll turn it back to the conference operator, who will poll you for your questions.