PATTERSON COMPANIES

EDITED TRANSCRIPT

PATTERSON COMPANIES 1st QUARTER
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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to Patterson Companies' First Quarter Fiscal 2014 Earnings Announcement. During today's presentation, all participants will be in a listen-only mode. Following the presentation, the conference will be open for questions. If you have a question, please press the star, followed by the one on your touchtone phone. Please press star, zero for Operator assistance at any time, and for participants using speaker equipment, it may be necessary to lift the handset before making your selection.

This conference is being recorded today, Thursday, August 22nd, 2013, and I would now like to turn the call over to Jeff Lichner from Patterson Companies. Please go ahead, sir.

Jeff Lichner *Senior Financial Reporting Analyst*

Thank you, Katia. Good morning, everyone, and thank you for participating in Patterson Companies' fiscal first quarter earnings conference call. With me in the room today are Scott Anderson, our Chairman, Chief Executive Officer and President; and Steve Armstrong, our 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 risk and uncertainties. These factors are discussed in detail in our Form 10-K and other filings with the Securities and Exchange Commission. We urge you to review this material.

Also, since Regulation FD prohibits us from providing investors with earnings guidance unless we release that information simultaneously, we've provided financial guidance for fiscal 2014 in our press release earlier this morning. I would also like to point out that, for the first time, we are providing a performance summary slide presentation to review operating results, and we will make this available on a quarterly basis. This presentation can be found in the Investor Relations section of our website at pattersoncompanies.com.

Please be advised that this call is being recorded and will be available for replay starting today at 11:00 a.m. Central Time for a period of one week.

With that, I'd like to hand the call over to Scott Anderson. Scott?

Scott Anderson *Chairman, Chief Executive Officer and President*

Thank you, Jeff, and welcome, everyone, to today's conference call. As we discussed with you on our last call, we expected that our first quarter would be challenging, although the Company's results were generally in line with our expectations. While total Patterson Company sales in fiscal 2014 first quarter declined 1% on a year-over-year basis, we remain confident in our full year outlook for reasons that Steve and I will discuss in a moment.

First, let me recap our operational performance in the first quarter. Patterson Dental, which accounts for about two thirds of our total business, reported fiscal 2014 first quarter sales of $554.2 million, down approximately 2% from prior year period. Contributing to revenues in this segment was a more than 3% rise in sales of consumable dental supplies versus a year ago. This is encouraging, as increased consumable sales typically signal that underlying market conditions are strengthening. As we anticipated, however, versus a year ago, we had a tough first quarter comparison in dental equipment. The shortfall was primarily due to last year's exceptionally strong customer trade-up program from the CEREC® Redcam to the Bluecam technology platform, which helped lift total equipment sales in the prior year by nearly 20%. Sales of the new CEREC Omnicam, which was introduced in fiscal 2013, continue to meet expectations. Overall, the CEREC pipeline is strong, and we are off to a good start for the year. We remain confident in the growth prospects for our dental equipment sales this fiscal year.

Since the economic downturn, dentists have remained cautious about expanding and upgrading their basic practice infrastructure, which includes chairs, units and cabinetry. We believe that there is a considerable pent-up demand for these investments in their businesses. Patterson is the proven leader in the dental equipment market. We offer the best-in-class technology and basic equipment, coupled with unrivaled after-sales support. The growth opportunities from our technology offerings position us well as dentistry migrates to a digital platform, and as the dental market continues to gain momentum to historical growth levels, we expect to benefit from strong equipment sales for the remainder of this year and into the next decade.

Against this backdrop, I want to mention Patterson Dental's acquisition of Mercer Mastery. This transaction closed just after the first quarter end on July 31st. Although the acquisition is not financially material to Patterson, it is strategically important in that we gain Mercer's proprietary OnTrack dental practice performance software system. OnTrack is a business intelligence system that allows dentists to choose growth targets for their practices and then create a business plan to achieve those goals. The OnTrack® system can easily be integrated into multiple practice management software platforms, and it expands our industry-leading software offerings for dental practices and generate additional revenue opportunities in the longer term.

Other developments during the quarter in Dental included the creation of a Special Markets division that is dedicated to growth by focusing solely on our large practice and institutional customers, delivering world-class logistics, as well as equipment, technology and service. We also are excited about the CAD/CAM for Everyone program, where, in conjunction with our partner, Sirona, we are making this technology available to meet a full range of dental practice needs and help improve patient care. The program provides dentists with multiple entry points with products that are best-in-class in every category of CAD/CAM technology.

Let's now turn to Patterson Veterinary, which is responsible for approximately one fourth of total sales. First quarter fiscal 2014 sales for this unit increased by nearly 5% to $200 million. Contributing to the gain was a nearly 4% increase in consumable sales, such as medications and supplies. We also had double digit growth in the equipment and software category, which included sales of our first 3D imaging device for animals. We are excited to offer this technology, which provides faster results than MRI or CAT scans and can help improve veterinary diagnosis. We believe that the strong performance across all of our veterinary equipment lines is an early indicator that our strategy to enhance our infrastructure and become a national technical service provider is working. Patterson Veterinary continues to build their business platform in North America and internationally.

To this end, during the fiscal 2014 first quarter, we announced an important acquisition, National Veterinary Services Limited, NVS, which was part of Dechra Pharmaceuticals. NVS is the largest veterinary distributor in the United Kingdom. The transaction closed earlier this month, and with NVS, pro forma consolidated sales for Patterson Veterinary would have surpassed $1 billion in fiscal 2013. This acquisition is expected to enhance shareholder value and be accretive to earnings by $0.03 to $0.04 per diluted share for fiscal 2014. NVS offers an exceptional platform to extend Patterson's strategies into new geographic markets. We remain focused on building our value-added model in the veterinary market by increasing both our equipment and technical service offerings, and by taking advantage of the favorable marketplace dynamics as consumers continue to increase the amount they spend on veterinary care for their pets. To that end, Patterson Veterinary has increased its sales rep count from 234 to 255 over the past year and its technical service staff from 14 to 32.

Looking now at our Medical business. Sales for Patterson Medical, our rehabilitation, supply and equipment unit, were down approximately 4% from the prior year quarter, primarily reflecting ongoing weak international conditions. As anticipated, sales in North America continued to stabilize and showed modest growth. Patterson Medical represents approximately 14% of total Company sales.

As you saw earlier this month, we announced the hiring of Michael Orscheln as President of Patterson Medical. Mike brings 32 years of leadership experience in healthcare and medical distribution companies and a proven record of success. Mike will focus his talents on leading Patterson Medical and building our value-added platform.

While we expect the current market conditions to persist for the short term, we remain confident in the long-term prospects for this business. Patterson Medical has attractive operating margins, a talented team and our industry-leading product and service offerings.

Also, as announced in our press release this morning, Patterson will take a restructuring charge related to the divestiture of certain assets in our European Medical business. Steve will review this in more detail in a few minutes, but let me make it clear that this is part of our strategy, and we believe that it will benefit our growth in those markets over the long term. By divesting these non-core product lines, we can lower the operating expense levels of our European medical distribution operations and enhance our strategic focus in Europe.

Next, as we previously discussed, we began expanding our investment in information technology in order to support the Company's strategic growth initiatives, further enhance the customer experience and secure future productivity gains. As we outlined last quarter, Patterson's total information technology investment over the next five years is estimated at $55 million to $65 million. While approximately half of this amount will be capitalized and amortized, we anticipate expensing an incremental $10 million on this key effort in fiscal 2014. The financial impact in this year's first quarter from the information technology investments was approximately $0.01 per diluted share. Already, we are beginning to achieve greater efficiency, and we anticipate further productivity gains. Our progress to date includes making substantial enhancements to our dental and veterinary websites to provide best-in-class search capabilities on our product portfolio that make it easier for customers to research and order for their practice needs.

Also, Company-wide, we are rolling out a new sales tool called PattEdge™ that quickly and concisely puts more market and customer information into the hands of our sales reps to continue to enhance our already strong customer service offering. We believe our information technology investment is critical to providing Patterson with the flexibility to adjust our platforms as opportunities warrant and create long-term shareholder value. Going forward, Patterson Companies has strong cash generation capabilities and a flexible balance sheet, so we can take advantage of opportunistic acquisitions to augment our organic growth initiatives. Acquisitions remain a key component of our comprehensive capital allocation strategy, which also includes internal investments, dividend growth and share repurchases.

Before I ask Steve to cover the financials, let me reiterate what I noted at the outset of this call. We remain confident about our growth prospects for the remainder of Patterson's fiscal year and beyond.

With that, I'll turn it over to Steve.

Steve Armstrong *Executive Vice-President, Chief Financial Officer and Treasurer*

Thanks, Scott. During this year's first quarter, as noted, we saw increased Dental consumable sales up more than 3%. However, that growth was not sufficient to overcome the impact of the highly successful prior year CEREC trade-up program. Importantly, we believe that strengthening results in the consumables category are a leading indicator to improving market conditions, and we believe that growth in equipment sales will follow.

During the quarter, we saw minimal impact from foreign exchange fluctuations on sales growth. We experienced a 10 basis point year-over-year decline in our consolidated gross margin, to 32%. As we expected, the reduced promotional activity in the CEREC category compared to last year increased dental margins 100 basis points. Offsetting this improvement was the mix impact between the three segments and a reduction in the contribution from equipment financing. The financing decline was due to the quantity of contract sales and an increase on the long end of the yield curve this quarter.

Quarter-over-quarter, operating expenses declined approximately $3 million on an absolute basis and were flat with the prior year as a percentage of net sales. Fiscal first quarter 2014 operating expenses did include approximately $700,000 for acquisition-related expenses and approximately $2.2 million pre-tax for the previously-mentioned planned information technology investments.

By segment, our first quarter operating margins were 10% for Dental, 4.5% for Veterinary and 13.3% for Medical. Please note that the information technology investments were accounted for in the Dental segment. Net of these expenses, Dental operating margin would have been 10.4%. Incrementally, the Veterinary segment expense structure includes the cost from the increase in sales and technical service personnel that Scott mentioned earlier.

Our effective tax rate in the first quarter was 36.4%, a 90 basis point increase from the prior year due to the previously discussed one-time tax benefit that we had in the first quarter of fiscal 2013. Our DSO stands at 42 days for the first quarter, down from 43 days in the prior-year period, while inventory turns are 6.8 compared to 6.9 one year ago.

Our cash flow from operations in the quarter totaled $21 million compared to $60 million in the year-ago period. Impacting the year-over-year working capital levels was an unusually low level of CEREC units during the majority of fiscal 2013, which we have been rebuilding. The timing and magnitude of income tax and accounts payable disbursements also negatively impacted operating cash flow in the quarter, but we anticipate this will dissipate as we move through the fiscal year.

During the quarter, we returned more than $50 million to our shareholders, and a quick note of clarification on that. Our March and June dividend declarations were both paid in the first quarter since the March dividend payment date was set for April 30th, which was after the fourth quarter closed.

We drew $135 million on our revolving credit line for the NVS acquisition to take advantage of short-term interest rates, and we will arrange permanent financing for the acquisition during the next year.

Our CapEx in the first quarter was—mainly consisted of regular ongoing expenditures, in addition to planned investments in information technology. During the first fiscal quarter under our share buyback authorization, Patterson repurchased approximately 500,000 shares. Approximately 2.3—I'm sorry, 23.9 million shares remain available for repurchase under our current authorization. We will continue to make open market purchases as part of our capital allocation strategy that we have outlined.

Before I turn the call back to Scott for some closing comments, let me detail our guidance for fiscal 2014 and the restructuring charge for our Medical business that we anticipate taking starting in the second quarter. In this morning's release, we announced that Patterson plans to divest of several non-core product lines in our Medical segment. As a result, Patterson anticipates incurring a pre-tax charge in the range of 15 to $17 million, or approximately $0.12 per diluted share, the majority of which will be taken in the fiscal second quarter. Of the 15 to $17 million, approximately 14 to $15 million will be non-cash losses on the disposal of assets. Divesting these product lines will generate annual savings of approximately $2 million, or $0.01 per diluted share, beginning in fiscal 2015.

Based on our general confidence and the strength in the underlying markets of our business, we are essentially reaffirming our EPS outlook for 2014; however, we expect the NVS acquisition in our Veterinary business to add approximately $0.03 to $0.04 to diluted earnings per share for the remainder of the year. With the recent closing of that acquisition, we are adjusting our fiscal 2014 diluted EPS guidance from recurring operations to $2.13 to $2.24 to reflect the NVS operations for the remainder of the year. The new guidance range of $2.13 to $2.24 per diluted share excludes the $0.12 per diluted share non-recurring charge for Patterson Medical.

Again, our guidance is predicated on several assumptions and includes stable economic conditions; modest operating margin expansion in our ongoing operations, excluding our planned investments; a $0.06 impact to diluted EPS from the information technology investments; and no impact from share repurchases that may occur during the remainder of the year.

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

Scott Anderson *Chairman, Chief Executive Officer and President*

Thanks, Steve. Entering our fiscal 2014 second quarter, Patterson is well positioned for growth as market conditions continue to improve. As we progress through fiscal year 2014, we are confident in our ability to capture market share as we help our customers grow their business. We are committed to generating long-term shareholder value through targeted investments, dividend growth and strategic share repurchases.

Now, we'd like to take any questions. Katia, please open up the line for Q&A.

Operator

Thank you, sir. Ladies and gentlemen, if you wish to ask a question, please press star, followed by the one on your touchtone phone. If you wish to withdraw your question, please press star, followed by the two, and if you are using a speakerphone today, you will need to lift the handset before making your selection.

And, our first question comes from the line of Kevin Ellich with Piper Jaffray. Please go ahead.

Kevin Ellich *Piper Jaffray – Analyst*

Good morning, guys. Thanks for taking the questions. Just wanted to start off with dental equipment. Obviously, you had the tough comp from the CEREC trade-up program, but just wondering what else did you guys see? And, what was impacting it? And, how did basic Dental perform, basic dental equipment perform this quarter?

Scott Anderson *Chairman, Chief Executive Officer and President*

Sure, Kevin. First of all, I'll talk about CEREC because that had the biggest impact in the quarter, and really, it came in right on our internal plan and there are really four things that went on in the quarter around CEREC. Number one is we placed all new Omnicams in our training centers, as well as established new demonstration units with all of our sales people in our branches; two is we began to deliver Omnicams to customers trading up from Bluecam. We have a substantial backlog of customers to get to in the coming quarters, which we are very excited about; three is we also sold and installed new Omnicam units to new customers; and four, I think, is one of the really important points, is we really worked over this first quarter to normalize our inventory level of CEREC products to position ourselves to meet the ongoing demand throughout our entire fiscal year. So, we feel very good about our CEREC pipeline, and we expect double digit growth in our fiscal year.

I'd also note that Sirona has been stellar in our agreed-upon delivery schedule and we remain on track with that. On the core equipment business, it was down slightly in the quarter, coming off really a six-month run of strong business, but it still sort of bumps along the same level that it's been at for really the last three years. I would say we're cautiously optimistic though in what we see in the pipeline already out of the gate in our second quarter and feel good about these market conditions going into the end of the calendar year.

Kevin Ellich *Piper Jaffray – Analyst*

Got it, okay. And then, Scott, your comment about expecting double digit growth for the year, is that just on the CEREC sales? Or, is that for all of equipment?

Scott Anderson *Chairman, Chief Executive Officer and President*

I think when you put all of our equipment together, we expect to get there by the end of the fiscal year, obviously, strong double digit sales in CEREC and our digital products, you know, and mid-single digit sales for our core equipment piece.

Kevin Ellich *Piper Jaffray – Analyst*

Got it, that's helpful. And then consumables is showing a nice recovery. Just wondering if there is anything you can call out that's driving that, or is it just more macro recovery? And then also, were there any pockets of the country that was—that performed better than the others?

Scott Anderson *Chairman, Chief Executive Officer and President*

Yes, good question. We feel real good about the consumables story. This is now, you know, six months of solid growth, and it feels like it's strengthening across all product lines. There are certain pockets of the country that are stronger than others. If there were—100 million people lived in North Dakota, things would be really good.

Kevin Ellich *Piper Jaffray – Analyst*

Of course.

Scott Anderson *Chairman, Chief Executive Officer and President*

But it's—I would say, you know, we really take sort of a macro look at it, and we feel like the underlying market is starting to grow, and I think that just lends to the thesis of stability in the dental market and really positive things in the space over the next 10 to 15 years.

Kevin Ellich *Piper Jaffray – Analyst*

Do you think we'll see continuation of this kind of 3%-type growth for the year?

Scott Anderson *Chairman, Chief Executive Officer and President*

I would anticipate that.

Kevin Ellich *Piper Jaffray – Analyst*

Okay. And then, just a quick one for Steve. NVS, obviously you guys completed that deal. I think annual revenues were kind of in that 270 range, Steve, if I'm correct. Is that kind of what you're expecting on a pro forma basis for the year?

Steve Armstrong *Executive Vice-President, Chief Financial Officer and Treasurer*

Actually, NVS generates revenue nearly $500 million historically, about £300 million. We're expecting about, roughly 75, 80% of that for the year.

Kevin Ellich *Piper Jaffray – Analyst*

Got it. Okay, helpful. Thank you.

Scott Anderson *Chairman, Chief Executive Officer and President*

Thanks, Kevin.

Operator

Thank you. Our next question comes from the line of Robert Jones with Goldman Sachs. Please go ahead.

Scott Anderson *Chairman, Chief Executive Officer and President*

Bob, you there?

Operator

And, Mr. Jones, please check your mute button. Your line is open. Mr. Jones, please check your mute button.

Scott Anderson *Chairman, Chief Executive Officer and President*

(Inaudible).

Operator

And, it looks like Mr. Jones is not joining from his desk. Our next question comes from the line of Lisa Gill of JP Morgan. Please go ahead.

Lisa Gill *JP Morgan – Analyst*

Good morning. Again, thanks for taking my question. I actually just had two questions. My first would just be around the Medical side. Can you talk about what you're seeing on the sales trends? And obviously, bringing in a new head of that sales, what are your expectations for this year and the guidance around the turnaround, Steve or Scott?

Scott Anderson *Chairman, Chief Executive Officer and President*

Sure. You know, we're excited to have Mike join the team and I've been very impressed by all of the folks in the Medical division over the last five months as I've been sort of the interim leader. I think we've got a very solid plan for this year, and I'm confident in the ability of the management team to deliver on it. We're taking some action in the European business that we've worked on during our strategic review over the last year. We like this business a lot because we feel, number one, we have such a strong competitive position, but we also really like the long-term trends in terms of the aging population. So, I feel like Mike's sort of marching orders are to move quickly with the team in place, and he doesn't need a whole lot of time to evaluate where the business is at because we've been working on that the last six months, and he's absolutely in agreement with the direction we're going to take.

Lisa Gill *JP Morgan – Analyst*

And, would you say, Scott, that what's been happening with the Medical side of the business, is it—what's been the key drivers? Are these things that you think you can turn around at Patterson, you know, not the right product to the right participant? Or, is it more of, overall, the economic recovery? I mean, just help me understand, you know, what are going to be the key drivers to turning this around. I know you talked about the divestitures and getting rid of some of—new sales have been more focused in Europe, but you know, what are some of the other key variables as you really try to turn the business around?

Scott Anderson *Chairman, Chief Executive Officer and President*

Sure, I'll start with the external factors. The external factors are, you know, this has been a tough market and tough industry for the last 24 to 36 months as the Affordable Health Care has been enacted and austerity measures, particularly in the UK, have been enacted. So, we know there's been an adjustment in the healthcare system but that doesn't change the fact that there's going to be very strong underlying demand for physical and occupational therapy modalities and the products that go with that. So, we're comfortable that we can weather that external pressure.

From an internal standpoint, our Medical business is a bit of a complex business. We have a lot of things going on in terms of both distribution and some light manufacturing, and one of the things we've worked on over the last six to 12 months is really to start to tighten the focus of who we are and what we do in that business, and this will be a year where the team executes on that.

Lisa Gill *JP Morgan – Analyst*

Okay, great. And then, my second question would just be around your comment around capturing market share on the Dental side of the business. If we look at your consumable sales, they've been, you know, this quarter roughly about the same as your largest competitor, so is it—are you capturing market share from the smaller guys? How should we think about the market right now?

Scott Anderson *Chairman, Chief Executive Officer and President*

Yes, I think we're growing a little faster than the market right now, Lisa, and we look at that as an ongoing trend. We're excited about the story we have to tell to our customers in terms of what Patterson can do to really help dentists grow their practice and take advantage of what is, you know, going to be an environment of very strong demand for dental care going forward. We are an absolute leader on the equipment side of the business, with over 50% market share of capital goods, and as that market rebounds, we're excited to really be a leader in that recovery. And then, you couple that with our position on technology with CEREC and CAD/CAM and digital X-ray, we think all those things put together puts us in a strong position to grow faster in the market for many years to come.

Lisa Gill *JP Morgan – Analyst*

Okay, great. I appreciate the comments.

Scott Anderson *Chairman, Chief Executive Officer and President*

Thanks, Lisa.

Operator

Thank you. Our next question comes from the line of Robert Jones of Goldman Sachs. Please go ahead.

Robert Jones *Goldman Sachs – Analyst*

Hey, can you hear me, guys?

Scott Anderson *Chairman, Chief Executive Officer and President*

Yes.

Robert Jones *Goldman Sachs – Analyst*

Thanks for taking the questions. Scott, I actually just wanted to follow up on a comment you made earlier around dental equipment growth for the year and the expectation for double digits despite what we saw this quarter, you know, which clearly—with a decline in the double digits. I guess, could you just maybe give a little bit more insight into what the drivers are of the accelerated growth in your expectations for equipment on the balance of the year? Is it specifically related to the current trade-up program?

Scott Anderson *Chairman, Chief Executive Officer and President*

Well, I think we've got a lot of positive factors going for us. One is we—as I said, we have a very strong backlog of customers who are trading up from Bluecam to Omnicam, and we will—you'll start to see that fairly substantially here in the second quarter. So, it's almost a flip-flop of what happened last year, where we had a very strong first quarter and then a weaker second quarter. I think you'll see a reversal of that. You know, if you look at our last three years, we've sequentially grown the equipment business, and last year, you know, towards the last end of the year, particularly the last six months, we ended up with a near double digit year, and we see that as a continuing trend as, number one, our customers' practices continue to stabilize and grow and we take advantage of quite a bit of pent-up demand in terms of practice investment.

Robert Jones *Goldman Sachs – Analyst*

Got it. And then, just switching over to Vet, you know, I was hoping you could maybe give us a little bit more clarity on the competitive landscape and the competitive positioning of NVS. You know, I know it's not an exact comp, but your largest vet competitor has been seeing some slowing internal growth in the international vet side. I was just wondering if maybe you could discuss, you know, the competitive positioning and then maybe what you guys are seeing in that marketplace?

Scott Anderson *Chairman, Chief Executive Officer and President*

Sure. You know, what really excited us about NVS was, number one, they were a market leader. Two is, they had a great management team and it was a very clean transition from Dechra. So, we have a group at NVS that are really excited to be a part of the Patterson team and really start to, you know, take advantage of their strong competitive advantage but also get a lot of additive benefits from being part of Patterson. When looking at this, obviously, we take a very long view and we see the underlying market characteristics for the companion animal market in the UK and Western Europe to be similar to that of North America. So while, you know, you're going to go through some slow patches from time to time, we absolutely see it as a growing market over the next decade and an exciting opportunity for us to grow our business geographically.

Robert Jones *Goldman Sachs – Analyst*

Great. Thanks for the questions.

Scott Anderson *Chairman, Chief Executive Officer and President*

Thanks, Bob.

Operator

Thank you. Our next question comes from the line of Glen Santangelo with Credit Suisse.

Glen Santangelo *Credit Suisse – Analyst*

Yes, thanks and good morning.

Scott Anderson *Chairman, Chief Executive Officer and President*

Hi, Glen.

Glen Santangelo *Credit Suisse – Analyst*

Scott, I just wanted to kind of follow up. I hate to beat the drum on this equipment question, but I just want to ask one more time here. Based on the way your comps look for the remainder of the year, it seems like you have an easy comp in the second quarter but your comps in the third quarter and fourth quarter seem pretty difficult so to get to double digit growth kind of seems difficult, and I'm kind of curious about the comments you made about your substantial backlog. What's preventing you, I guess, from capitalizing on that backlog? Are there any capacity constraints coming from Sirona? Or, is it more of a function that your salespeople just can't get the equipment installed as fast as you'd like? Or, is there anything that we should think about from a timing perspective as the next couple of quarters play out?

Scott Anderson *Chairman, Chief Executive Officer and President*

Yes, that's a good question, Glen, and I think that's where, you know, it's important, and I'll go back to what I said about CEREC. We really planned out internally and with our partner Sirona to have the first quarter be a get back to normalized business in terms of demonstration units, training centers, inventory levels. For nine months, we were living hand-to-mouth because of the excitement around Omnicam, and at a certain point, you got to get back into a normalized business flow, both, you know, from our ability to both take care of customers who want to upgrade to Omnicam, of which we have a substantial backlog, but also have our salespeople continue to drive new product sales. So, it's a good problem to have, but it was critical, I thought, that we—and this dental team thought that we use the first quarter to really stabilize the supply chain and get back to a more normalized type of selling environment out there. So with that, you know, we're off to a very good start in the second quarter and anticipate that to continue.

You know, the comments about equipment in general, you have to remember that the core equipment, the basic equipment business still is down 15%-plus from its high watermark in 2008 and 2009. So, our ability to continue to grow that business is absolutely out in front of us and to expect mid-single digits growth out of core equipment is not a stretch to look at over the balance of the year.

Glen Santangelo *Credit Suisse – Analyst*

So, Scott, and maybe Steve, you can chime in here. As you think about the—sort of the puts and takes on your guidance for the balance of the year, is really sort of the equipment line, and in particular, maybe, you know, some of the ebb and flow of CAD/CAM here, is that really going to be the big driver in terms of where you shake out ultimately relative to your guidance? Because it kind of seems like the consumable number has been pretty stable, the Vet number has been pretty stable and you put in some corrective actions within the Medical segment, so you know, I'm trying to figure out where the potential upside surprises and risks may ultimately lie.

Scott Anderson *Chairman, Chief Executive Officer and President*

Sure, I'll start off and then I'll turn it over to Steve. I think one of the important things is the way we modeled is, we modeled our consumable growth fairly conservatively, so I would say we're actually off to a better start than we anticipated. So, that would be something, if that continues to hold at this level or grows, it would be an opportunity. We've always talked about there being some volatility in the equipment business, but you know, that's part of what goes along with what a large market share we have on that side of the business. I'll let Steve sort of finish off the...

Steve Armstrong *Executive Vice-President, Chief Financial Officer and Treasurer*

Yes, I think I would just echo what Scott talked about before on the equipment side of the Dental business. First quarter is never a particularly litmus test for the remainder of the year, and with—when you look at what's out in front of us with CEREC and the basic opportunities plus the other technologies, we're very comfortable with where we think our forecast is putting us for the year.

Glen Santangelo *Credit Suisse – Analyst*

But, Steve, you're going to require an improvement in the core equipment back into mid-single digits to kind of make those numbers.

Steve Armstrong *Executive Vice-President, Chief Financial Officer and Treasurer*

Sure, absolutely. But, you got to remember that 50% of the volume comes in the last half of the year, Glen.

Scott Anderson *Chairman, Chief Executive Officer and President*

Yes.

Glen Santangelo *Credit Suisse – Analyst*

Yes. Maybe if I can just ask one last one, then I'll jump off.

Scott Anderson *Chairman, Chief Executive Officer and President*

Sure.

Glen Santangelo *Credit Suisse – Analyst*

With respect to the changes you're making in the Medical segment, Steve, could you maybe give us a little bit more color in terms of how much revenues may be going away within that segment? And, if I heard you correctly, you said an annual savings of $2 million. Were these basically unprofitable product lines that you're divesting, and the word 'divestiture' sounds like you're selling them to someone? Or, are you getting any money for these product lines? Will there be any proceeds?

Steve Armstrong *Executive Vice-President, Chief Financial Officer and Treasurer*

You got a lot of questions in there, Glen. As far as the impact on the P&L sales-wise, we're maybe looking at 2 to 3 percentage points of the Medical business itself as far as the impact on revenue. I wouldn't say these were unprofitable businesses but they were not highly profitable businesses, so the impact on the operating line from the sales of these product lines is not going to be material. As far as the—what it allows the European operation to do is sort of clean up its operating structure a little bit. We picked up some pieces in acquisitions over the last three years, Mobilis days, that we took a look at, strategically evaluated and really decided that they just don't fit with the business. So, where the charges are going to come from is selling these assets where we can, closing operations that don't make sense to operate in the long term, consolidating into existing facilities and so forth.

So, that's really the essence of what's going on. It's a lot of individual pieces, Glen. There's really no one big piece that I can point to that would account for most of the activity, but we will try to sell most of this stuff. It's good product. We'll probably end up selling some of it going forward. It just doesn't belong in Patterson's bailiwick.

Glen Santangelo *Credit Suisse – Analyst*

Okay. Thank you very much.

Scott Anderson *Chairman, Chief Executive Officer and President*

Thanks, Glen.

Operator

Thank you. Our next question comes from the line of Brandon Couillard with Jefferies & Company. Please go ahead.

Sachin Kulkarni *Jefferies & Company – Analyst*

Hi, this is Sachin in for Brandon. Thanks for taking our questions.

Scott Anderson *Chairman, Chief Executive Officer and President*

You bet.

Sachin Kulkarni *Jefferies & Company – Analyst*

Steve, so on the balance sheet, inventory took a chunk up sequentially. Inventory days have ticked up for the past several quarters. How much of that is attributable to Omnicam, and how should we expect organic inventory levels to trend over the coming periods?

Steve Armstrong *Executive Vice-President, Chief Financial Officer and Treasurer*

There has been a build in CEREC as we reestablished our training centers, got our dental inventories out, and as Scott said, brought our unit level back to what we consider normal for that product category. So, most of that build that you see in inventory is in the CEREC product line. I wouldn't anticipate seeing much more build for the remainder of the year. Most of it has occurred now.

Sachin Kulkarni *Jefferies & Company – Analyst*

Got it. Also just to quantify, could you define the impact of FX and M&A on the Dental segment revenue specifically?

Steve Armstrong *Executive Vice-President, Chief Financial Officer and Treasurer*

Yes, I can. Acquisitions was about two tenths of a percent positive and FX was a negative one tenth of a percent.

Sachin Kulkarni *Jefferies & Company – Analyst*

All right. That's it. Thank you.

Operator

Thank you. Our next question comes from the line of John Kreger with William Blair. Please go ahead.

John Kreger *William Blair – Analyst*

Hi, thanks very much. Just a couple of follow-up questions on the Vet business. Steve, could you just expand a bit more on why EBIT margins declined in the Vet business? And, I'm guessing the NVS business is a bit less profitable. How big of a step down in margins would you expect in the rest of the year with that being consolidated?

Steve Armstrong *Executive Vice-President, Chief Financial Officer and Treasurer*

You're probably going to see something around 2 percentage points of impact from NVS. You're correct, they do run at lower margins. What was the first part of your question, John?

John Kreger *William Blair – Analyst*

What drove the lower margin in Vet this quarter?

Steve Armstrong *Executive Vice-President, Chief Financial Officer and Treasurer*

Oh, primarily, just the headcount additions that they made, and Scott talked about the number of people they added on the sales side of the organization, as well as the technical service year-over-year.

Scott Anderson *Chairman, Chief Executive Officer and President*

And the transaction costs from NVS.

Steve Armstrong *Executive Vice-President, Chief Financial Officer and Treasurer*

And the transaction cost, right.

John Kreger *William Blair – Analyst*

Got it, okay. And, another kind of follow-on, if you're willing to talk about your international M&A strategy at all. With NVS now in the portfolio, what's your interest in maybe thinking a little bit more about continental Europe for your Vet business, or perhaps moving Dental into the UK?

Scott Anderson *Chairman, Chief Executive Officer and President*

Well, John, I think the important thing is we've always taken a global perspective at Patterson and looked at global markets. We are excited that the property is high quality, that NVS was available for us to make a transaction, so we'll continue to do that and—but at the same time, I think we'll be very patient in terms of making sure it's the right fit, the right management team as we expand. But, as opportunities come out and as we build relationships, which we've been doing for decades, you know, we'll absolutely be there to move on them if it makes sense for Patterson and our shareholders.

John Kreger *William Blair – Analyst*

Great, thanks. And maybe just one more, Scott. Can you just talk a bit about the Special Markets division within Dental? What are you seeing in terms of the larger kind of corporate account growth in the dental market? And, what's going to be your plan to go after that?

Scott Anderson *Chairman, Chief Executive Officer and President*

Well, we already, you know, have customers in that market but we felt it was important to sort of formalize our approach because there are definitely different customer needs of the larger accounts versus our private practice accounts. So, the first step was formalizing the division and naming a leader of that. We think we've got a great story to tell in terms of just next-day logistics on the consumable side, very easy to do business with, and then we have some very unique things to offer on the technology side that many of these larger practices are very interested in, in terms of how they differentiate their practices through CEREC and digital X-ray and high quality equipment. So, we think we've got a very compelling story to tell in this segment of the market. We feel it's 7 to 10% of the market today, and our market share in that market is smaller than our overall market share, and we think we have a great opportunity to grow share in that space as it grows within dentistry.

John Kreger *William Blair – Analyst*

Great. Thank you.

Scott Anderson *Chairman, Chief Executive Officer and President*

Thanks, John.

Operator

Thank you. Our next question comes from the line of Steven Valiquette with UBS. Please go ahead.

Steven Valiquette *UBS – Analyst*

Hi, it's Valiquette, just for the record, but it's okay. So good morning, guys.

Scott Anderson *Chairman, Chief Executive Officer and President*

Morning, Steve.

Steven Valiquette *UBS – Analyst*

Just a couple of questions here just on the NVS acquisition, just some clarifying questions. I guess first, obviously, we've talked about the revenue run rate, but is there any feel for the breakdown between consumable and equipment? Is it pretty similar to what you currently have where it's predominantly consumables? Or, is there a different mix within that?

Scott Anderson *Chairman, Chief Executive Officer and President*

Yes, it's a good question. It's predominantly consumables, so we feel, over time, there potentially could be an equipment opportunity with NVS.

Steve Armstrong *Executive Vice-President, Chief Financial Officer and Treasurer*

They do have some service.

Scott Anderson *Chairman, Chief Executive Officer and President*

They have some service but predominantly consumables.

Steven Valiquette *UBS – Analyst*

Okay. So, if the margins are a touch lower right now, it sounds like it's not really due to mix, but I guess the question too would be then, if the margins are a touch lower right now, is it your business plan that you can, you know, improve and expand those margins such that they'll eventually get to where your overall—that segment is right now?

Scott Anderson *Chairman, Chief Executive Officer and President*

Well, I think that's absolutely always our plan to work on our businesses to improve margins. You know, it is a different market than North America, so I think what we're excited about is just the early interaction between the NVS management team, and George and his team are—what are the things that we do in terms of value added because of our scope and size and some of the benefit that has trickled over from the Dental business, what are those software (inaudible), ePatt Health (ph) would be a great example of a product that we can bring over to the UK that would expand their offering, and over time, help drive profitability for them.

Steven Valiquette *UBS – Analyst*

Okay. And then final quick question on NVS. I know the deal just closed, you know, about a week ago, but is there any preliminary read on the annual intangible asset amortization tied to the deal? I'm guessing maybe it's somewhere in the 10 to 20 million range annually. Was there any feel for that yet?

Steve Armstrong *Executive Vice-President, Chief Financial Officer and Treasurer*

We've made some estimates, Steve, on it. We have engaged an appraisal, but I think—right now, you know, I'm reluctant to give you an exact number or even a range at this point because it could change dramatically, but it—you know, we're looking at maybe a little less than 1%.

Steven Valiquette *UBS – Analyst*

Okay. Just in terms of at least the timing of the time period over which you would amortize that, is that set, or is that also still kind of subject to review?

Steve Armstrong *Executive Vice-President, Chief Financial Officer and Treasurer*

Well, the numbers we gave you and what we expect it to contribute, we used about a five-year amortization on average for it. There'll probably be some 10, there'll probably be some 7 and some 5, but we used a fairly conservative 5.

Steven Valiquette *UBS – Analyst*

Okay. Wait, 1% of the purchase price? Is that what you said?

Steve Armstrong *Executive Vice-President, Chief Financial Officer and Treasurer*

No, no, 1% of impact on operations.

Steven Valiquette *UBS – Analyst*

Oh okay. All right, that's a very different number, okay.

Steve Armstrong *Executive Vice-President, Chief Financial Officer and Treasurer*

Yes.

Steven Valiquette *UBS – Analyst*

Okay. All right. Okay, thanks.

Operator

Thank you. Our next question comes from the line of Robert Willoughby with Bank of America Merrill Lynch. Please go ahead.

Robert Willoughby *Bank of America Merrill Lynch – Analyst*

Yes, Scott and Steve, I'm actually looking at your press release for the invite to the Analyst Day and that dog actually looks dead. You may want to check on that, in the picture. But…

Scott Anderson *Chairman, Chief Executive Officer and President*

It's a happy dog, Bob.

Steve Armstrong *Executive Vice-President, Chief Financial Officer and Treasurer*

(Inaudible).

Scott Anderson *Chairman, Chief Executive Officer and President*

Taking a nap, but (cross talking).

Robert Willoughby *Bank of America Merrill Lynch – Analyst*

All right, so I'll turn the picture sideways; maybe that's a different view. The—you mentioned you were moving to a fixed debt solution for what you do down on the credit facility. Is that correct, Steve? And maybe what's a run rate you'd hope for the interest expense then over the course of the year or the timing on whatever solution you reach?

Steve Armstrong *Executive Vice-President, Chief Financial Officer and Treasurer*

We may keep this with a short term—using the short-term markets for some time, Bob. I haven't really decided yet. I'm kind of watching what the interest rate markets do here over the next several months. If we took it overseas, which would be the natural place to place it, it's a bit higher interest rate in those markets than what we can get here in the States just because of size and so forth in that market. So, I'm keeping my options open, I guess, is the best thing to tell you at this point.

Robert Willoughby *Bank of America Merrill Lynch – Analyst*

And, the tax rate assumption for the year, does NVS have any influence on that?

Steve Armstrong *Executive Vice-President, Chief Financial Officer and Treasurer*

It does not. The influence on the tax rate would come more from what we're doing with the Medical. NVS will have some positive impact, obviously because the British rate is lower than the U.S. rate, but the real impact on that tax rate could come about with some of the activity in the Medical side.

Robert Willoughby *Bank of America Merrill Lynch – Analyst*

But, maintain the first quarter run rate, is that a safe assumption?

Steve Armstrong *Executive Vice-President, Chief Financial Officer and Treasurer*

Yes. For now, I'd keep you there.

Robert Willoughby *Bank of America Merrill Lynch – Analyst*

Okay. And, I think it was to John's question about the corporate dental contributions. Does the guidance assume any major inroads relative to where you currently stand on that front?

Scott Anderson *Chairman, Chief Executive Officer and President*

No, it does not.

Robert Willoughby *Bank of America Merrill Lynch – Analyst*

Okay. Okay, that's it. Thank you.

Scott Anderson *Chairman, Chief Executive Officer and President*

Thanks, Bob.

Steve Armstrong *Executive Vice-President, Chief Financial Officer and Treasurer*

Thanks, Bob.

Operator

Thank you. Our next question comes from the line of Jon Block with Stifel. Please go ahead.

Jon Block *Stifel Nicolaus – Analyst*

Good morning. It's Block, for the record, but anyway, just another follow-up question on the Vet space. So, are the hires done? I mean, you mentioned increasing the headcount, so are you done there? And then, Steve, I think you alluded to 2%, a 2% step down in the margins. Just to be clear, is that from the 1Q number of 4.5, or is it from the full year '13, which I think was at least 100 basis points higher?

Steve Armstrong *Executive Vice-President, Chief Financial Officer and Treasurer*

You got to back me up here. I lost you altogether Jon, sorry.

Jon Block *Stifel Nicolaus – Analyst*

So, when you mentioned the margins stepping down, I believe you said by about 2% due to NVS; is that from the 1Q rate that you put up of 4.5% op margins, or from the run rate where you were in 2013?

Steve Armstrong *Executive Vice-President, Chief Financial Officer and Treasurer*

Relating to Vet?

Jon Block *Stifel Nicolaus – Analyst*

Yes, relating to Vet.

Steve Armstrong *Executive Vice-President, Chief Financial Officer and Treasurer*

It's off of last year.

Jon Block *Stifel Nicolaus – Analyst*

Off of last year?

Steve Armstrong *Executive Vice-President, Chief Financial Officer and Treasurer*

Right.

Jon Block *Stifel Nicolaus – Analyst*

Okay. And I'm sorry, in terms of the Vet hires, are you done there in terms of a headcount?

Scott Anderson *Chairman, Chief Executive Officer and President*

Yes, I'll take that. We'll continue to have new sales rep classes, and we'll expand our technical service offering as demand warrants, but this was—the last 18 months were really sort of a build year, and we'll have the full expectation of the Vet business start to leverage that headcount here over the balance of this year and going forward.

Jon Block *Stifel Nicolaus – Analyst*

Okay. And, the last two questions are a little bit big picture, and I guess the first one is, it just seems similar to where we were last year at this time. In other words, you came in a little bit shy of expectations, you're standing by the annual guidance, you seem to imply that it's more of the street's cadence than—versus what you guys expected. So, can you talk to us about what's changed from last year? In other words, as you sit here today, what's different? Is the pipeline a lot better on the Dental equipment side that makes you comfortable? Why are you so confident that you can go ahead and reiterate guidance today?

Scott Anderson *Chairman, Chief Executive Officer and President*

Well, I'll start with that. I think the strength of the consumable business is a key factor. I think, you know, what we know about our pipeline on the CEREC side, as well as the fact—you got to remember, a year ago, the Omnicam product was launched in August, and in essence, we really didn't have a product to sell until late November, December, and then we were playing catch-up in terms of inventory in and inventory out quickly. So, I think we feel like, on the Dental side, we're in a strong position.

The Vet business continues to perform very well and we see that continuing, and we had a tough year on the Medical side last year, and we feel like we've righted the ship over there. The fact that our North American business is starting to grow, I think, gives us confidence. So, I think I can point to many different aspects, and also the way we planned out the year, you know, the fact that our quarter, in essence, is right on our internal plan gives us a high level of confidence going forward.

Jon Block *Stifel Nicolaus – Analyst*

Okay, great. And maybe last one, Scott, for you. Just the specialty market seems to be evolving; you know, in other words, your—one of your competitors made a few purchases of orthodontic companies. They have an agreement with Align, recent commentary from Straumann and Nobel seems to imply that GPs are getting a lot more aggressive with dental implants, and can you speak to your plans to sort of align yourselves with the changing times? I mean, where are you today with more aggressively pursuing or getting a foothold in the specialty market versus where you were 12 to 24 months ago?

Scott Anderson *Chairman, Chief Executive Officer and President*

Yes. You know, we do great business across all the specialties in terms of the basic consumables and equipment, as well as software. We own Dolphin, which is the leading orthodontic practice management and planning software system, so we feel like we've got a nice position in the specialty market, but we also have the discipline, I think, and there are certain markets that tend well towards a direct model, and historically, implants has been one of those, endodontics has been another. But you're right; you will see general dentists start to build out the modalities of things they can do in their practice, particularly due to cone beam technology and other things, and as that grows, I think Patterson becomes a great partner for many manufacturers as they look to grow their business. So, I think we're excited about the position we have in the market and how we can partner with innovative manufacturers to help them grow their business over the next decade, which I think will have very strong demand across all the specialties.

Jon Block *Stifel Nicolaus – Analyst*

Great. Thanks for your time.

Scott Anderson *Chairman, Chief Executive Officer and President*

Thanks.

Operator

Thank you. Our next question comes from the line of Kevin Kedra with Gabelli & Company. Please go ahead.

Kevin Kedra *Gabelli & Company – Analyst*

Hi, guys.

Scott Anderson *Chairman, Chief Executive Officer and President*

Hey, Kevin.

Kevin Kedra *Gabelli & Company – Analyst*

A couple of quick questions. First, on the Medical, in terms of sort of the strategic review that you guys have had ongoing, is that still ongoing, or is that mostly complete and now it's more a function of an execution on that? And then secondly, just wanted to ask about share repurchases. We've seen them slow down a little bit the last few quarters. I'm just wondering, is that a function of, you know, maybe the NVS acquisition, a function of where the stock price has been? Has there been a fundamental change in how you think about that? How should we think about share repurchase going forward? Thanks.

Scott Anderson *Chairman, Chief Executive Officer and President*

Sure, I'll take the strategy question, and I'll have Steve talk about the share repurchase strategy. You know, we are in a constant cadence in terms of strategy, and strategy obviously is always evolving at the Company. But last year, we did take a very deep dive across all three businesses to take a look at where we can grow our markets, where we should be playing and where we shouldn't be playing, and that came out in some of our European operations in terms of helping them clean up their business so they can spend their time and effort on growing business profitably where they're the strongest. So, you know, I would say this becomes an execution year for Medical, but the worst thing you can do is put—do a strategic plan and let it just sit on the shelf for three years before you go back and look at it. So, we'll always be evolving. I think, you know, that's one of the reasons I'm so excited about Mike joining the team because I think he gives us some fresh eyes and fresh perspective that, along with a management team that knows the business so well and so deeply, I think we can have some really good strategic discussions about where we take that business over the long term. But, there's definitely very clear things that the Medical business will execute on here over the next 12 months.

I'll let Steve talk about sort of share repurchase trends over the last six months.

Steve Armstrong *Executive Vice-President, Chief Financial Officer and Treasurer*

Yes, I think what I would tell you is that we're still on track strategically to move some of the cash back to the shareholder over the remainder of the year. We did slow down – Kevin, you hit it on the head – as far as why we slowed down in the first quarter, was predominantly due to the purchase of NVS and how we might fund that, so we were cautious about committing capital to share repurchases until we understood what we were going to do with NVS.

Operator

Thank you. Our next question comes from the line of Jason Bednar with Robert W. Baird. Please go ahead.

Jason Bednar *Robert W. Baird – Analyst*

Good morning. Thanks for taking my question. I just wanted to come back to—so a quick one here on Omnicam. We appreciate the color on the backlog, but wondering if there's any other specifics you could provide with respect to the mix of upgrades versus new systems in your backlog. Is it still mostly trade-ups? Or, is the new system funnel actually strengthening?

Scott Anderson *Chairman, Chief Executive Officer and President*

Yes, the new system funnel is strong, and we saw nice incremental growth in new systems in the first quarter, and it's just that balance of, you know, how we get the backlog of customers who have been waiting to trade up their Bluecam and continuing to drive Omnicam sales. I said in the prepared comments too, we're really excited about the story we can tell to customers in terms of the CAD/CAM for Everyone strategy and how we really have a product—not only a product but I strongly believe a best-in-class product at every entry point throughout CAD/CAM. So, you know, we take a long view on this and have been disciples on CAD/CAM for over a decade now. We see the CAD/CAM story continuing to grow, not only this year but throughout the next decade.

Jason Bednar *Robert W. Baird – Analyst*

Okay, that's helpful. And then, just a bit of a follow-up to that, and I know we've really hammered home kind of the whole Omnicam and Dental equipment questions here, but Omnicam, obviously a very good camera, a lot of excitement and buzz in the industry about it. But, we were wondering, with all the other new value-oriented entrants into the chair side CAD/CAM market, are you seeing any pause from the dentists you speak to with respect to them wanting to pull the trigger on a new system purchase? Like, you know, it seems like we went through maybe this type of dynamic several years ago with 3D imaging, and now we're wondering if there's a chance we may go through a similar period like that, even if it's a short-term period, but go through a period like that for CAD/CAM. So again, just curious on your thoughts there.

Scott Anderson *Chairman, Chief Executive Officer and President*

Yes, I look at the competition and the increased number of products as a real positive, because for many years, we were the only—we were the missionaries talking about this. We were the only company out there talking about CAD/CAM, and it's had such a high level of interest with the dentists right now, and the fact that competitor products are entering the space I think really sends the message that this is the future of dentistry. You know, and just to reiterate, where we think we have such a strong position, I talk to folks all across the world in terms of dental distribution and it's very clear that when folks have a choice on which product they want to lead with throughout the world in all of the large markets, companies with a choice are leading with Sirona and CEREC. So, I think the competition is good for the dentist. It's good for us. It pushes Sirona to innovate, and I don't see it as a negative that's delaying decisions from customers.

Jason Bednar *Robert W. Baird - Analyst*

Okay. Thanks, guys.

Scott Anderson *Chairman, Chief Executive Officer and President*

Thanks, Jason.

Operator

Thank you. And, our last question comes from the line of Kevin Ellich with Piper Jaffray. Please go ahead.

Kevin Ellich *Piper Jaffray – Analyst*

Hey, guys, just two quick follow-ups. First, have you given any consideration to other divestitures or areas that you're targeting for, you know, any strategic plans? And then second, in the Vet business, obviously, some of the trends are going very nicely for you guys, and Scott, I think you even called out, you know, the equipment and technology strategies performing. Just wondering if you've given any thoughts to expanding, you know, some of the products that you guys offer in the diagnostic space. Thanks.

Scott Anderson *Chairman, Chief Executive Officer and President*

Your first part of the question again? (Cross talking).

Kevin Ellich *Piper Jaffray – Analyst*

Oh, divestitures.

Scott Anderson *Chairman, Chief Executive Officer and President*

I wouldn't see any other action on that. We've got enough to execute on right now, and it ties right to the strategic plan we were working on. In terms of our portfolio on the Vet side, I think we're very comfortable with the products we're offering today and excited about those growth opportunities going forward over the next year.

Kevin Ellich *Piper Jaffray – Analyst*

Got it. Thanks.

Scott Anderson *Chairman, Chief Executive Officer and President*

Thanks, Kevin.

Operator

Thank you, and I'm showing no further questions at this time. I would like to turn the call back over to management for closing remarks.

Scott Anderson *Chairman, Chief Executive Officer and President*

Thanks, Katia, and I want to thank everyone for joining us today. Our first quarter results met our expectations and we continue to anticipate improved performance for the fiscal year. We're encouraged by economic indicators in North America that generally bode well for our business. We're focused on capitalizing on growth opportunities that lie ahead as we continue to expand our footprint into new geographies and further enhance our product and service offerings.

Between now and our November call, we have two other opportunities to update you on our progress, Patterson's Annual Meeting at our corporate headquarters will be on September 9th, and our Investor Day in New York City will be on September 24th. We look forward to hopefully seeing many of you in person. Thanks for your interest and we'll update you at various events throughout the next quarter. Thank you.

Operator

Ladies and gentlemen, this does conclude our conference for today. If you would like to listen to a replay of today's conference, please dial 303-590-3030 or 1-800-406-7325, with access code 4635202. Thank you for your participation. You may now disconnect.