THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

XRAY - Q1 2012 DENTSPLY International Inc. Earnings Conference Call

EVENT DATE/TIME: MAY 01, 2012 / 12:30PM GMT

OVERVIEW:

XRAY reported 1Q12 reported sales of $716m and reported net income attributable to Co. of $53.3m or $0.37 per diluted share. Expects 2012 adjusted EPS to be $2.22-2.30.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Derek Leckow *Dentsply International Inc - VP of IR*

Bret Wise *Dentsply International Inc - Chairman, CEO*

Chris Clark *Dentsply International Inc - President, COO*

Bill Jellison *Dentsply International Inc - CFO, SVP*

CONFERENCE CALL PARTICIPANTS

Glen Santangelo *Credit Suisse - Analyst*

John Kreger *William Blair & Company - Analyst*

Larry Marsh *Barclays Capital - Analyst*

Jeff Johnson *Robert W. Baird & Company, Inc. - Analyst*

Jonathan Block *SunTrust Robinson Humphrey - Analyst*

Steve Beuchaw *Morgan Stanley - Analyst*

Verdell Walker *Goldman Sachs - Analyst*

Yi-Dan Wang *Deutsche Bank - Analyst*

Brandon Couillard *Jefferies & Company - Analyst*

PRESENTATION

Operator

Good day, everyone, and welcome to the Dentsply International first-quarter 2012 earnings conference call. Just as a reminder, today's presentation is being recorded. At this time, I would like to turn the conference over to Mr. Derek Leckow, Vice President of Investor Relations. Please go ahead, sir.

Derek Leckow - *Dentsply International Inc - VP of IR*

Thank you very much, Vicky, and my thanks to each of you but for joining us this morning to discuss Dentsply International's first quarter 2012 results. Joining us on the call today are Bret Wise, Chairman and CEO, Chris Clark, President and COO Bill Jellison, Senior Vice President and CFO. We will have some prepared remarks this morning and then we will be glad to answer any questions that you may have. I hope you all had a chance to review the press release which we issued earlier this morning. A copy of the release is also available for download on our website, www.dentsply.com. We have also provided a set of supplemental slides that is available for download under the investor relations section as well.

Before we get started, it's important to note that this call may include forward-looking statements involving risks and uncertainties. These should be considered in conjunction with the risk factors and uncertainties that are described in our SEC filings. The Company undertakes no obligation to update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this call. A recording of this call in its entirety will be available on our website. As you can see in the release, our results this quarter include a number of nonrecurring items and other non-GAAP adjustments. In an effort to provide you clarity from the distortion of some of these items, our comments on the call will focus on results, including certain adjustments which are noted on the non-GAAP reconciliation tables contained in the release. You'll note that our earnings guidance is also on an adjusted basis.

With that, I'd like to now turn the call over to Chairman and CEO, Bret Wise. Bret?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Thank you,, Derek. Good morning, everyone, thank you for joining us on our call this morning. We're pleased to report record sales and adjusted earnings for first quarter of 2012 this morning. Overall, I think it's fair to say that the global dental markets are stable and growing. Certainly, the markets are strong and the US, benefiting from a now expanding economy, some job growth of pent-up demand for dental procedures. In Europe, the markets continue about at the pace that we saw in the fourth quarter last year. Slowed growth in the north and recessionary conditions in the south, but overall I'd say the European dental market continues to show some modest growth. With this backdrop, we are pleased to report what we view is a pretty strong results for Q1. Let me give you a few highlights to start, then Chris is going to cover the Astra Tech integration and speak to our opportunity in emerging markets. And then finally Bill will provide some more details on the financial performance.

As noted in the release, sales as reported were $716 million, that's up 25.6%, and excluding precious metal content, sales were up 26.3%. Both were records for the first quarter, driven primarily by our 2011 acquisitions, most notably Astra Tech, but also reflecting continued improvement in internal growth building off what was a strong finish we had in the fourth quarter 2011. At a high level, internal growth continues to be driven by a wave of new products we launched in 2011 and some additional momentum we are picking up now from 2012 launches as well.

Our growth, excluding precious metals, for the quarter breaks down as follows. Total growth, as I mentioned, was 26.3% as comprised of internal growth of 1.1%, acquisition growth of 27.2% to result in constant currency growth of 28.3% and negative currency translation of 2.0%. Internal growth at 1.1% was again negatively impacted by the natural disaster last March in Japan specifically causing supply outage in orthodontics Excluding Japan and orthodontics, internal growth for the quarter was 4.5%. That's the best result we have seen since pre-recession and it's coming up against a reasonably strong 3.8% internal growth in last year's baseline.

Geographic internal growth, and I'll give you this first in total and then without orthodontics in Japan. First, in total, our internal growth ex- PM, including ortho in Japan, was a positive 3.5% in the US. Again, that is despite the headwinds we faced in orthodontics. There's a negative 1.1% in Europe and a positive 1.3% for rest of world. Again, those same statistics without ortho in Japan, which is probably a better measure for us at this point, internal growth ex- PM was a positive 7.4% in the US, and that's a continuation essentially of what we reported in the fourth quarter last year. Internal growth in Europe ex- ortho was a positive 2.2%, and that's slightly below what we had in the fourth quarter, but we think still well above what the market is growing in Europe, and rest of world ex- ortho in Japan was a positive 4.4%.

On geographic growth, again, this is ex- ortho in Japan, in the US we saw very strong results essentially across all business categories. Ex- ortho, all categories including specialty, consumables and lab reported mid to high single-digit growth and in some categories, double-digit growth. New products launched both last year and early this year continue to drive very high customer acceptance and are driving growth well above market. Likewise in Europe, our internal growth of 2.2% is likely well above the market and again, is driven by new innovation. And while we are very pleased with this performance relative to the market, I think it's fair to say we remain cautious on the European economy and the European market given the uncertainty in that region. In rest of world, it was -- we were up 4.4%, which is an improvement from what we had in the fourth quarter, but we see some upsides from here moving forward.

As far as product categories are concerned, our internal growth ex- ortho in Japan was mid single digits. This is global now. In specialty and consumables and low single digits in prosthetics. The trends were generally the same we saw in the fourth quarter except for prosthetics, which is now showing positive growth, even with a drag of the alloy market which is converting away from precious metals and as you know, we have a large market share in a market. In implants, looking at our combined business on a pro forma basis as if we had owned Astra Tech for the first quarter last year also, our internal growth was mid single digits, actually it's probably fair to say towards the low end of mid single-digits. Although this is a bit weaker than we saw in the fourth quarter, our growth in the US was very strong, double-digits and in Europe, it was just barely negative. Less than 1%. Rest of world continues to show positive growth overall with some ups and some downs by countries and regions.

On earnings, and Bill will have more details on this in a moment, we are pleased to see that adjusted gross margins expanded nicely this quarter. Driven by acquisitions, but also by the price increases we implemented late last year. Our expenses were also up and as we expected, because Astra Tech had a much higher expense ratio than the base and supply business. So, as we merge that into the results, of course we are getting a natural inflation of that expense ratio, and that ratio is also, of course, affected by the costs we are occurring to sustain the orthodontics business anticipating a relaunch mid this year. Obviously, we expect that to improve moving forward.

As noted, the orthodontic supply situation continues to create an operating margin pressure for us. However, we have now anniversaried the initial supply shortage and therefore, we are now -- we believe now that the worst of the year-over-year comparisons are behind us. For the first quarter, this depressed earnings between $0.04 and $0.05 per share; in the second quarter, this should diminish and then it should turn positive beginning in the third quarter. Our supplier has made substantial progress in expanding capacity and we continue to expect a relaunch of that line midyear. I think it's important to emphasize that although we are expecting sequential improvement in this business, we do view this as a multiyear rebuilding process for the business.

On Astra Tech, just a few comments. We're now launching the integration and have gone live in North America with one combined entity and sales force. Chris will comment further on this first stage integration but from a high level, it's going very well. We're also moving forward with our integration strategy outside North America. However, timing of that strategy will vary by country or region. Overall, the integration is on track and in line with or in some cases, ahead of our expectations.

One last point is that we're very excited about a global event taking place next week in Sweden. Astra Tech is hosting a symposium for approximately 2,500 customers in Gothenburg This is an event that's held every three to four years, so it's really a great opportunity to introduce our new organization to our customers and also demonstrate what we can accomplish together. Our earnings performance non-GAAP came in at $0.52 per share, that is up 4% from the prior year quarter. This of course reflects the negative $0.04 to $0.05 year-over-year negative comparison for orthodontics. If orthodontics had been neutral year-over-year, our adjusted earnings gain would've been in the low to mid teens.

Looking forward, we remain confident with our earlier guidance of $2.22 to $2.30 adjusted earnings-per-share. I would say our confidence has increased by our first-quarter results in both sales and earnings. Our increasing confidence in the orthodontics recovery plan continued strong results from the acquisition and integration, but it's tempered somewhat as we stay vigilant on the outlook for Europe and on currency movements.

On the quarterly progression of earnings, Q2 will still have some lingering downside year-over-year in ortho, which we expect to turn positive year-over-year later in the year beginning in the third quarter. And we will still see some negative currency headwinds in Q2. That's my prepared remarks. I'd like to now turn the call over to Chris, and he is going comment on the Astra Tech integration and also our opportunities in emerging markets. Chris?

Chris Clark - *Dentsply International Inc - President, COO*

Thank you, Bret, and good morning, everyone. I'm going to take a few moments and provide some deeper insights into our investments and activities in emerging market regions which have really been key growth drivers for us over the past several years. I will then also provide a brief update on the integration efforts relative to Astra Tech which at a high level continue to go very much in line with what we expected.

With respect to emerging markets, these regions have been an area of focus for us for the past several years and continue to be central to our strategies in 2012. While the demographics in these regions -- in these markets are certainly attractive with a rapidly growing middle-class population, we also believe that as a result of our strategies and investments made, our market share position has gradually improved in these -- in aggregate in these regions over time. As a group, these regions continue to be accretive to our overall growth rate. Our sales to emerging markets as a percentage of our overall global sales, excluding acquisition impact has increased by over 400 basis points over the past five years. As a percentage of global sales, emerging markets now represent a mid to high teen component of our overall sales mix. Based on the demographics and the fact that we have continued to invest disproportionately in these markets, we believe these regions will continue to be accretive to our growth rate for the next decade or more.

A core strategy for us in these markets continues to be expanding our sales force footprint to reach more customers. This is been a concerted investment area for us as our aggregate sales force in these countries has increased by over 50% over the past five years. We now have country organizations in 25 emerging market countries with Dentsply sales representation and an additional 20 countries beyond that, and we are implementing plans to further expand our sales organizations in several key emerging markets by an additional 15% this year. In addition to expanding our sales force footprint, we've also expanded our investments in the areas of sales trading, both in terms of selling skills and product training. And our approach in these emerging markets really allows us to heavily leverage the infrastructure and experience that exist in our franchise organizations.

Another increasingly important strategy for us in emerging markets is the development of dual branding approaches. The use of dual brands allow us to approach these markets with alternative brands compared to the premium brands we utilized in developed markets. And then we can position these brands more appropriately for the specific economic or market conditions that we face locally. We continue to expand the use of our Sultan and Zhermack platforms in this manner for chairside consumable products, and we have also recently launched several value brands in the endodontic franchise. We are now expanding these brands geographically to additional emerging market countries as registrations are completed. We view dual branding as a core long-term growth strategy for us in these markets and are continuing to expand our internal resourcing to support these efforts.

A final strategy that is been a component of our growth in these markets is been business development activities as we have found acquisitions to be an effective approach to gain critical mass and experienced end market resources in specific emerging market countries. Over the last six years, we have completed six transactions in emerging markets, including both manufacturers as well as sales and marketing companies. These transactions have been core to our strategic approach in these markets as they've expanded our presence and capabilities in several key emerging countries and in some cases are providing platforms to expand beyond individual markets to provide more broader reach across emerging market regions. We're pleased with the traction each of these strategies or approaches are having in the emerging market regions, and based on the success in these markets and the strong demographics, we anticipate continuing to invest disproportionately in these regions and deriving growth rates that are continuing to be accretive to our overall growth.

I'd now like to provide some brief comments on the Astra Tech integration efforts. As Bret mentioned, we are excited to have completed the launch of our combined Dentsply implants organization in North America. We're pleased with the reaction to the combined business from our internal organization as well as from our customers. And feedback has been quite positive as they are quickly seeing the strength of our combined portfolio of implant solutions. The sales team is energized on this new portfolio and the new opportunities it provides our customers, including, for instance, last week's launch of the expanded Atlantis customized abutment platform to now include our US Ankylos customers. The integration beyond North America is also continuing to go is expected, and we continue to be very pleased with the level of collaboration within our teams, the excitement within the business and our sales force retention levels.

In addition to our strategy of creating a combined Dentsply implant organization, we are also looking ahead with our strategy to create a dedicated healthcare business that provides specific focus on the growth opportunities in chronic urology consumables. We anticipate announcing a new name for the global healthcare business shortly and are moving forward with the global structure necessary to provide the focus and support needed to realize the significant opportunities that we see in this business. I look forward to providing additional updates on our integration efforts during future quarterly calls. I'd now like to turn the call over to Bill Jellison who will cover the financial results for the quarter in greater detail. Bill?

Bill Jellison - *Dentsply International Inc - CFO, SVP*

Thanks, Chris. Good morning, everyone. Bret commented on our sales growth, but I'd like to add just a couple of additional comments regarding our sales. The 2012 first quarter geographic mix of sales without precious metal content was as follows; US represented 34% of our sales, Europe was 46% this year and the rest of the world was 20% of sales.

The strengthening of the dollar compared to the first quarter of last year negatively impacted our top line growth by 2 percentage points in the quarter. However, FX had only a minor negative impact on earnings per share compared to last year in the quarter, in part due to our hedging strategies. We continue to expect about a 2% to 3% headwind from current foreign exchange rates on both top and bottom line this year, with the largest negative impact of approximately 4% to 5% occurring in the second quarter. As Derek mentioned and as you can see in our earnings release, the first quarter included a number of items which impacted our results. By excluding these items from our quarterly results, we believe the adjusted figures provide a more comparable picture of the Company's overall performance. Most of the following comments exclude the impact of those items.

Gross profit margins on an adjusted basis as a percentage of sales ex- precious metal content in the first quarter of 2012 were 59.5% compared to 57.2% for the first quarter of 2011. When compared to the same period last year, this rate was positively impacted by favorable product mix and price increases. Our product mix continued to be benefited from by the strong gross margin rates of our recent acquisitions and from strong sales of endodontic and general consumable products. These positive impacts were partially offset by the effects of negative exchange rate, mostly caused by some key products that are purchased or produced in Switzerland and Japan. Our recent acquisitions are expected to have a positive mix impact on gross profit margin rates comparisons over each of the next two quarters as they are fully reflected in the Company's results.

SG&A on an adjusted basis was $283.7 million, or 42.6% of sales ex- precious metals in the first quarter of 2012 versus 38% in the prior year's first quarter. As we have mentioned, our SG&A rates are expected to run higher for two reasons. First, our recent acquisitions have higher SG&A expenses as a percentage of sales than our base business and thus, as we bring those into our mix, they will increase this ratio, but will be mitigated somewhat as we complete our integration efforts over the next few years. Second, although our orthodontic business sales are down substantially due to the lack of complete supply of product, we are maintaining the infrastructure of this business in anticipation of a full relaunch of these products. This year-over-year comparison with a higher expense level as a percentage of sales will continue through the third quarter of this year when the acquisition impacts annualize and the orthodontics business begins to show year-over-year improvement. We do, however, expect to show some sequential improvement in SG&A as a percentage of sales in the second quarter, and we also expect both a sequential and a year-over-year improvement by the time we get to the fourth quarter of this year.

Operating margins based on sales, excluding precious metals, on an adjusted basis, were 16.9% in the first quarter compared to 19.3% last year in the same period. Also, you should be aware that as a result of the Astra Tech acquisition, Dentsply has recently made some changes in our senior management assignments and as a result, we have realigned our segments in this quarter. When we file the 10-Q in the next day or so, you will see that the segments have changed and we have restated prior years to reflect the new structure as required by the accounting rules.

As Bret noted, the Japanese natural disaster negatively impacted our earnings per share this quarter by approximately $0.04 to $0.05, mostly from the loss of sales in our orthodontics business from the lack of consistent product supply. While the supply situation is improving, we expect this business will have a negative impact on results in the second quarter of 2012 of approximately $0.01 to $0.02 per share measured on a year-over-year basis. Net interest and other expense in the first quarter on a reported basis was $13.9 million compared to $4.5 million in the first quarter last year, and this increase in expense resulted primarily from higher net interest expense associated with the acquisition of Astra Tech.

Our reported tax rate for the first quarter was 21 -- 20.1%, however, there are tax adjustments reflected in the rate. On an adjusted basis, our operating tax rate for this quarter was approximately 23%. The tax rate continues to be benefited from a more favorable geographic mix. We are also benefiting from permanently reinvesting international income as we are able to more efficiently utilize those earnings. We believe that a tax rate of approximately 23% is reasonable when looking at 2012, despite the higher tax rate of our recent acquisitions.

To better understand and follow some of the following comments, you can look at the tables including in our recent -- included in our recent press release which reconciles performance from US generally accepted accounting principles, or GAAP, to adjusted non-GAAP performance. Net income attributable to DENTSPLY International in the first quarter of 2012 on an as-reported basis was $53.3 million, or $0.37 per diluted share compared to $69.1 million, or $0.48 per diluted share in the first quarter of 2011. As mentioned previously, these results include a number of items mostly associated with recent acquisitions which are detailed in the press release issued this morning. On an adjusted basis, earnings excluding restructuring, acquisition related costs and other related items and tax adjustments in both periods which constitute a non-GAAP measure were $75.3 million, or $0.52 per diluted share in the first quarter of 2012 compared to $72.1 million, or $0.50 per diluted share in the first quarter of 2011. But remember that this quarter includes a negative $0.04 to $0.05 per share negative impact from our ortho and Japanese businesses.

Cash flow from operating activities in the first quarter of 2012 was approximately $20 million compared to $45 million in the first quarter last year. Inventories were increased in the quarter to support the rebuilding of inventory for our orthodontic relaunch planned for midyear and to support inventory levels during our integration activities. 0 negatively impacted by the timing of some tax payments during this year. Capital expenditures were $19 million in the quarter with depreciation and amortization of approximately $36 million. We do expect capital spending will increase some as we move through the year to support volume increases as well as some opportunities supporting the recent acquisitions. Inventory days were 110 as of the end of the first quarter of 2012 compared to 106 days at the end of the first quarter last year. These levels now also reflect the addition of the Astra Tech inventory.

Accounts receivable days were 58 days at the end of the first quarter of 2012 compared to 60 days at the end of the first quarter last year. At the end of the first quarter of 2012, we had $67 million in cash and short-term investments and total debt was $1.77 billion at the end of the quarter. In 2012, we repurchased approximately $36 million of stock, or approximately 0.9 million shares at an average price of $39. Based on the Company's authorization may up to 34 million shares of treasury stock, we now have approximately 13 million shares available for repurchase. However, as we have now completed our recent acquisitions, our preference will be working to pay some of this new debt down before we utilize the remaining authorization, although we will more than likely continue to offset options.

As mentioned before, recent acquisitions have increase the volatility that changes in FX rates have on our sales and earnings as more of our sales and production is now located outside of the US. We are most impacted on sales by changes in the euro and our purchases and cost structure are most impacted by the euro, Swiss franc, Swedish corona and Japanese yen. We are utilizing additional systematic cash flow hedges on certain transactions to help minimize the volatility that these FX fluctuations may otherwise have on our business. At current exchange rates, we expect to have a negative impact from foreign exchange rates in 2012 on both sales and EPS.

Finally, as Bret stated, we are reaffirming our 2012 earnings-per-share guidance at $2.22 to $2.30 per share on an adjusted basis. That concludes our prepared remarks. Thanks for your support, and we would be glad to answer any questions that you may have at this time.

QUESTIONS AND ANSWERS

Operator

Thank you. The question and answer session will be conducted electronically today. (Operator Instructions) Glen Santangelo with Credit Suisse.

Glen Santangelo - *Credit Suisse - Analyst*

Thanks, and good morning. I just had a couple follow questions from your prepared remarks. Bret, just to follow-up on the Ortho division, I think when the tsunami hit a little bit over a year ago, Ortho was about 9% of the revenues for the Company, if I'm not mistaken. Would you be able to give us that number today? Because what I am trying to figure out is, I understand that the comps are going to start to ease in the back half of the year, but I'm try to figure out, what are you expecting in terms of revenue growth year-over-year or revenue contribution from that Ortho business? Or does the EPS impact ease just because we have anniversaried the event?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Okay, well thanks, Glen, and there's a couple ways to get at that question. First of all, Orthodontics was more than 9% of our revenue, but we have a global orthodontics business. The amount of product coming from this one supplier in this one plant was the 9% you're speaking of. 9% of our global sales came from that one facility, which essentially we lost supply from for an extended period of time here. I don't want to get too specific, but you should assume that our sales of those specifics supplies were cut in half or something like that. And as we relaunch these products midyear, we are going to see some earnings improvement, one, because of the -- we have anniversaried the event, so the earnings downside from last year is now in the baseline. But second of all, because we are relaunching the product line and we will begin to grow again. That's the guidance we have for you at this time. We may be able to give you more specifics going forward, but I do think as we anniversary this and move through the rest of the year, we are committed to providing you sales with and without Orthodontics for the rest of this year, so you know at least what that impact is on internal growth and you don't have to guess.

Glen Santangelo - *Credit Suisse - Analyst*

Okay, thank you. Just a quick follow-up on the Implant business. If I heard you correctly, Bret, you seem to suggest that the implant business maybe grew low- to mid- single, it sounded like 3% to 4% this quarter. That was down maybe a percent or two from the most recent quarter. Is that a fair assessment?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Yes, we grew mid- single-digits organically or what we call internal growth of the combined business. Towards the low-end of mid- single-digit. And that is slightly weaker than what we had in the fourth quarter for that combined business, although markets our business are different in the fourth quarter than the first quarter, so I'm not sure I'd pay a whole lot of attention to that. I do think it's fair to say though, because now all five of the premium implant companies have reported, and based on those numbers, we believe the market is probably flat to maybe slightly down or maybe slightly up, but certainly a mid- single-digit number is well above the market at this point.

Glen Santangelo - *Credit Suisse - Analyst*

Okay, that's fair. And Bill, maybe if I could just follow-up on one comment you made. You said you expect about a 4% to 5% currency impact in 2Q. Should we assume that the Company is adequately hedged so that won't have a big impact on earnings in 2Q, or is that not correct?

Bill Jellison - *Dentsply International Inc - CFO, SVP*

No, I think if you look at our general overview on FX impacts as we've got an our broader-based presentations that we show, generally, right now we'd look at the top line impact, whatever that may be. Impacting the bottom line by anywhere from about half to that full failed level impact. It depends on currencies, which currencies are changing and how that is making the mix up within our sales side. And while we do have some hedging activities in place, it's there to mute that impact to help it so that it doesn't have a greater impact than does on the sales, but it doesn't eliminate it. This last quarter it did, just because of the nature of when the hedges came into play. But in general, you should expect that those should go more in tandem.

Glen Santangelo - *Credit Suisse - Analyst*

Okay, thanks so much, I appreciate it.

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Glen, I would add to that, that Q2 is the quarter where you have the greatest headwind this year because the Euro was much stronger in Q2 last year. But the full impact of currency is reflected in our guidance for the year.

Glen Santangelo - *Credit Suisse - Analyst*

Okay, thanks so much.

Operator

John Kreger with William Blair.

John Kreger - *William Blair & Company - Analyst*

Hi, thanks very much. Just a quick follow-up on your Ortho line. Are you launching your full product line at the AAO show this week?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

No, we won't have the inventory implies in sufficient supply to do a full launch yet. We are aiming for midyear on a full relaunch. We will of course be at the AAO meeting. We will be showing product and talking to customers and so forth. And we do have some supplies, so we are still supply customers at some level. But the full launch won't occur until midyear.

John Kreger - *William Blair & Company - Analyst*

Okay, great thanks. (multiple speakers) And just broadly, I think you mentioned you were seeing the benefit of some price increases. Can you just update us on what about what those price increases have been for you, and are you seeing any competitive price pressure, perhaps in Europe at this point?

Bill Jellison - *Dentsply International Inc - CFO, SVP*

I think in general, and we have pretty consistently stated what our pricing objectives really are. I would say over the last -- even over the last five years, that we generally try to target something in the 1% to 2% on average. I'd say that this year continues to be probably at the upper end of that range, in the 1.5% to 2% range, and I'd say that we've got many lines that might be even well above those numbers, but average across the whole product line portfolio of the Company and geographic mix, that is more consistent. I would say moving forward, we'd expect that we would also be targeting for price increases of that nature and probably higher this year, especially as it relates to helping to offset some of the net tax that is going to be affecting 2013, but we will give you more updates on that as we move through this year.

John Kreger - *William Blair & Company - Analyst*

Thanks, Bill. Any commentary on competitive pricing changes? Do you see anything you unusual there?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

This is Bret. Not really. We have had a very broad portfolio here, so there's always products, this product in this region where you will see some price pressure or a customer discounting or perhaps a customer doing bundling deals -- or excuse me, a competitor doing bundling deals. But I would not say those dynamics are any different than what we would normally see.

John Kreger - *William Blair & Company - Analyst*

Great, thanks. And then one last question. I know you have benefited from the new product flow last year and sounds like this year too. Can you just talk a little bit more broadly about what your R&D spending and investment strategy is? Should we think about that generally trending as a percentage of revenues so it would grow with your top line?

Bill Jellison - *Dentsply International Inc - CFO, SVP*

It does grow with our top line, and it's been growing. We've been investing more in R&D. But generally speaking, R&D runs -- and this has two components, but it runs about 4.5% of sales. 3% or so goes through the traditional R&D spend and the SG&A line, and then there's about another 1.5% external R&D that ends up getting funded through royalties streams that goes through cost of sales. That's generally been consistent over time, although we have been increasing it, particularly in the last two, three years as we have been seeing a strong return from these new product innovations we have.

John Kreger - *William Blair & Company - Analyst*

Great, thanks very much.

Operator

Larry Marsh with Barclays.

Larry Marsh - *Barclays Capital - Analyst*

Thanks Brett, Chris and Bill. Good morning. Just a couple of follow-ups. First on Implants. Can you remind us what percentage roughly of current sales of the combined businesses now is Europe and what percentage is the US?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Just Implants.

Bill Jellison - *Dentsply International Inc - CFO, SVP*

Of just Implants, I would say that the total is probably in the -- for Europe, it is probably in the 65% range for Europe.

Bret Wise - *Dentsply International Inc - Chairman, CEO*

About 60%.

Bill Jellison - *Dentsply International Inc - CFO, SVP*

Yes, keep in mind that Astra Tech's business was a little bit, obviously much more balance between the US and Europe where ours was Europe and international and very little here in the US. So, we're still more heavily weighted to the European which, as Brett mentioned, is the market that was actually declining in the period. So, if anything relative to some of the other players, we would actually have more of a negative mix in our Implant business than some of them. I think our performance overall was very solid in the quarter.

Larry Marsh - *Barclays Capital - Analyst*

Right, I see. It seems like the message is in Europe, you retract at market may be slightly better and US continuing to do quite well. I think you said one of your first priorities as you roll out this combined business is to protect sales under Jim's leadership. And I think Chris, you mentioned in your prepared remarks you're pleased so far with the retention of the sales force. When do you feel comfortable where you can breathe easier on retention? Is that another three to five months we watch for? And just how important as the show next week in Sweden, given that hasn't been held for -- only held once every three or four years?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Okay, thanks, Larry. There's a couple questions there. Let me just make one comment. On Europe, our implant sales in Europe is the best number we have seen out of all the competitors so far. So, we were slightly down, but we have seen other competitors really down much more than we were, and we were a red zero in Europe this quarter. I going to let Chris talk about the retention issue further.

Chris Clark - *Dentsply International Inc - President, COO*

Sure, Larry, what I would basically say on the retention aspect is that the integration is really an ongoing process and will be an ongoing process for many more months, certainly through the end of this year. The US integration obviously moved faster for a number of reasons, and we are obviously very pleased with how that went. I would say that due to the integration in other countries is going to phase out or phrase in basically between now and the end of the year, in some cases maybe even early next year. The preparation efforts and the discussions and the collaborations I think we're very, very pleased with. I would say the -- certainly the moods of the sales organizations at this point are very positive because we see the power of the two portfolios coming together and the opportunities that, that creates for them, as well as for customers. But obviously, one of our key assets through this is the sales force, and we are certainly going to stay close to that and make sure we do whatever we need to retain those as we move through the transitions. But overall, we're pleased.

Larry Marsh - *Barclays Capital - Analyst*

Thanks. Second question, maybe a quick elaboration. You mentioned also, Chris, on the new branding of the Catheter business. Again, remind us how -- you may have mentioned in prepared remarks, growth you're seeing there. I know you've always said, hey, we are excited about our management team, we're actually separating them out to give them more firepower. So, a little bit of elaboration on the branding. And then, how do think that is going to translate into potential sales opportunity here in the next 6 to 12 months?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Okay Larry, this is Bret. I'm going to comment on the growth and let Chris speak to the branding issue. That business is doing very well. We are seeing very strong growth in the US, although US is a smaller component of that business. But very impressive growth in the US in that business. Europe is slower growth, of course, I think for obvious reasons. But overall, we're very pleased with the performance we've seen from that business so far and more importantly, perhaps, the R&D pipeline we see in that business right now. Chris, you want to speak to the branding issue?

Chris Clark - *Dentsply International Inc - President, COO*

Yes, in terms of the branding, we cannot use the Astra Tech name moving forward after a certain point, but frankly view that as an opportunity really to create a new brand, a global brand for the healthcare business. I think our organization is very excited about that concept, and again, we are just -- we're pretty close to finalizing that and being able to launch that, and I think you'll see some exciting sizzle behind that as we do that. And again, I would just say it just adds to combined with Brett's comments in terms of the latent business opportunities we see in this business. It just adds to the overall excitement that we're seeing in the number of opportunities. We are pleased with it.

Larry Marsh - *Barclays Capital - Analyst*

Okay, great. Two other quick once. One is you mentioned cash flow from ops dragged down a little bit versus last year because of extra inventories, both with the orthodontic restocking and then new opportunities, I guess, with implants. As you look at the actual inventory number though, is it half and half impacted both by that? And I guess just remind us, it seems like historically you guys have been able to generate about 80% of your reported EBITDA comes to free cash flow from operations. As a combined Company now with Astra Tech, is there any reason that would be much different going forward without trying to get you to guide to a specific cash flow number?

Bill Jellison - *Dentsply International Inc - CFO, SVP*

No, I think that, that's a reasonable estimate for you on the cash flow side. We would expect, again, another very strong year on cash flow this year. Our first quarter is typically a lower period for us in general. But as I mentioned, you not only have some of the inventory sides, and I think that yes, you can think of those as a little bit split between those two areas. But we also have some acquisition related costs that are dragging on the cash flow here initially in this period as will. Between that and some of the tax charges, we would expect as we move into the second quarter and also through the rest of this year that we should continue to have very strong cash flows.

Larry Marsh - *Barclays Capital - Analyst*

And final thing, just your proxy came out here last week and I noticed that clearly, management got -- hit their bonus targets a little bit better because of the strong internal growth you are able to show, I think, 3.5% reflected in that, it's the first time in a couple of years I think you've been able to do that. I know you're excited about that. I guess it is fair to say that it seems like every indication I get from you, Bret, is your goal is to try to do that and better in terms of internal growth this year. Is that a fair statement? It seems like where you sit now, you feel pretty comfortable you are going to be able to hit those targets again this year.

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Well, I don't want to get into the specific targets, but I think it's fair to say at the beginning of the year we try set stretch targets for the management team, both for internal sales growth and for net income. Last year, we did pretty well against those targets and you should expect as we set up 2012, we likewise have stretch targets. I think we're off to a pretty good start here at 4.5%, but to hit our targets we got to perform very well throughout the whole year.

Larry Marsh - *Barclays Capital - Analyst*

Okay, very good, thanks.

Operator

Jeff Johnson with Robert W. Baird.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

Thank you, good morning, guys. Bret and Chris, a couple questions for you and maybe just a follow-up modeling question for Bill. But Bret, on Europe, I hear your comments on maybe staying cautious here at this point and visibility not being great. But you also came up against your toughest comp, IDS last year was a very strong meeting for you guys and most of those benefits flowed into your Q1 last year. How do you see the next few quarters playing out? Should we really be thinking about that falling off, or is there potential that you can hold in at this 2% plus or so range?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Thanks, Jeff. I think there is more certainty and more difficulty projecting how Europe is going to develop this year than any other region in the world. We read the newspapers, we see some pretty dire projections. We haven't seen those affect dental though to that large degree that it is affecting some other industries. I think people have to continue to get their dentistry done, and that seems to be holding true. Also, I think that the market is bifurcating. The north is still growing for sure, and the south is certainly contracting or in recession. So, there is almost two Europe's we have to deal with now throughout.

I think that we are comfortable in saying now though that, what we said at it beginning of the year that we believe that the European dental market in total will be positive this year. We'll grow to some degree and if that's true, we think we can grow above market. It's a little bit difficult to be very specific. The point that you raised is a good one. That is Q1 last year was very strong in Europe. We did have a tough comp, it was an IDS year. I think that the 2.2% growth that we put down in the first quarter is a pretty strong performance.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

All right, thanks. And then Chris, you comments on emerging markets, very helpful full on the revenue side there. Would be interested though what that translates to for current EBIT margins and how you think those EBIT margins progress. Do need to be at adding significantly more infrastructure over the near- and longer-term, given the dual branding strategy and those kinds of things?

Chris Clark - *Dentsply International Inc - President, COO*

Yes, Jeff, obviously we are happy with the growth there, but we're also happy with the profitability. And I would say they are certainly profitable in terms of our businesses in emerging markets, but they are also slightly dilutive on a fully loaded cost basis versus our businesses in developed countries. That's largely due to the pricing in those countries, obviously due to some of the underlying economic market conditions. That said, we also carry lower SG&A as most of our R&D and certainly a good deal of global marketing support is in developed rather than emerging markets. I would say again, it's something that our profitability continues to improve. It's something that on a variable cost basis as we get more volume through our plants that are by and large in developed markets as a result of emerging market growth, that also significantly improves the profitability moving forward. Again, we're -- it's profitable, a little bit dilutive today, but we are continuing to make progress on it.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

All right, great, and then Bill, last two questions for you. On the operating margin side sequentially the contraction was less this quarter, which is a good sign. But if you break out Astra Tech, if you break out orthodontics, can you give us any kind of apples to apples what operating margins for the Company would've been done, ex- those issues? And number two on the gating of EPS, sounds like the orthodontic headwind will come down by about $0.03 or so this quarter but the FX impact to bottom line probably going to be $0.02 or $0.03 higher as well. I'm assuming Q2 should look similar to Q1 as far as year-over-year changes on EPS and then the rest of the growth comes in the back half?

Bill Jellison - *Dentsply International Inc - CFO, SVP*

Just a couple comments on that, Jeff. First off, as we talked about before, we aren't breaking down any of the different components of the businesses just so that we aren't identifying different profitability levels of different areas. As we move forward, you're looking at the overall broader-based business, and that's how we are generally talking about it. As far as the second quarter is concerned, you are right in the fact that the Ortho side is going to be a little bit less. Within that period, as I mentioned, it's only a $0.01 to $0.02 drag within the quarter instead of the $0.04 to $0.05. So, that will be nice to see and hopefully as we get in the back of the year then see some sequential and year-over-year improvements on that. On the FX side, I'd say that your FX bottom-line impact is probably a little bit too high of a negative impact. It's probably more in the range of maybe $0.01 or $0.02, but it's hopefully not more than that unless FX rates are really a lot worse. I'd say that our bottom line in the quarter is probably going to be a little bit less of an impact than the top line, but generally they are relatively close to each other.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

All right, thanks, guys.

Bret Wise - *Dentsply International Inc - Chairman, CEO*

You bet.

Operator

Jonathan Block with SunTrust.

Jonathan Block - *SunTrust Robinson Humphrey - Analyst*

Thanks, guys, and good morning.

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Good morning.

Jonathan Block - *SunTrust Robinson Humphrey - Analyst*

Maybe just a follow-up on the orthodontics business. It seems like the impact of the quarter was largely as expected and also for the guide for Q2, but can you speak a little bit about the back half of the year, and do you still expect Ortho to be net neutral for full-year 2012? And then just from an execution standpoint, when you look at your supplier, do feel like most of the risk, the execution risk is now behind you and just it's a question of how the inventory ramps?

Bill Jellison - *Dentsply International Inc - CFO, SVP*

Okay, we'll just answer the first part of the question. On the overall impact at this point, we still are expecting that Ortho is going to be more neutral for the year, maybe just a slight positive, but not much. I would say that, that's still a big hurdle for us to overcome in the back half of the year we're going to be down 4% to 5% in the first Q, down another 1% to 2% in the second quarter, so we do have to see some nice improvements. As we talked about as well, that's a multi-year recovering in the business. But as far as how that goes, maybe Bret can comment a little bit more on that.

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Jonathan, on the supplier, they have made just heroic progress here, from losing their plant entirely to starting a new facility, et cetera. And really, they have done a fabulous job, and they're improving sequentially. We do have good weeks and bad weeks, but overall, if you track the line, there is a pretty steady improvement. We do think we are going to be able to relaunch this midyear, and we think that it will continue to grow. Of course, we don't need quite the capacity we had for the crisis today, because were not going to have all those customers back immediately, but we do think we will have sufficient supply to do the launch midyear. I think it's also fair to say that we're taking nothing for granted, right? We're following the situation very closely, we've got contingency plans, et cetera. But at this point at least, the prospects look good for us in the back half of the year.

Jonathan Block - *SunTrust Robinson Humphrey - Analyst*

Okay, great. And then turning to the US market, it was another really strong quarter and I think ex- Ortho, you gave another 7% plus number on the growth rate. Can you speak a little bit, Bret, just to the dynamics in the US market? Was it very similar to the December quarter? Can you call out any differences in terms of discretionary spend coming back a little bit? Anything that you can call out in the changing of the dynamics Q-over-Q?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Well, the only dynamic -- the growth rates were almost identical, right? It was 7.5% in the fourth quarter and 7.4% in the first quarter, so it was essentially identical. The one dynamic that did change a little bit was our Lab business picked up and grew really quite strongly in the first quarter. And although it did grow in the US in the fourth quarter as well, it was stronger in the first quarter. That's a good indicator for the heavier dentistry, the more expensive dentistry, because that's what those products go into.

Jonathan Block - *SunTrust Robinson Humphrey - Analyst*

Okay, the last one is just housekeeping. Just on the restructuring charge, can you detail, is that from the Ortho business, or can you give us some detail around that?

Bill Jellison - *Dentsply International Inc - CFO, SVP*

The restructuring, and you'll probably see a little bit of that as we move through this year, but you will see different restructuring pieces as it ties in mostly to our integration related activities. And we aren't expecting large amounts, but I think that over the next few quarters, you may see $1 million or $2 million in each of the different quarters.

Bret Wise - *Dentsply International Inc - Chairman, CEO*

This is a consequence of combining locations, et cetera.

Jonathan Block - *SunTrust Robinson Humphrey - Analyst*

Right, understood. All right, thanks, guys.

Operator

Next will hear from Steve Beuchaw with Morgan Stanley.

Steve Beuchaw - *Morgan Stanley - Analyst*

One housekeeping question, sorry if I missed this but Bill, could you give us the number of selling days in the quarter and how that compared to last year?

Bill Jellison - *Dentsply International Inc - CFO, SVP*

The selling days were exactly the same year-over-year.

Steve Beuchaw - *Morgan Stanley - Analyst*

Okay, thanks. And then on the US consumables trend intra-quarter, and this clearly applies to the lab comments that you guys were making, is it fair to say that the US strength that you've seen over the last two quarters is holding up and you would say that the US is in a sustainable recovery? Not looking for any kind of quantification here. I guess another way to ask the question is do think there has been any evidence in the US that people are looking to do some catch-up, or are we on a new trend?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Well, coming out of recession we usually do see pent-up demand in dentistry. A lot of dentistry can be deferred so as people get their jobs back, we usually trend up above the economy for some period of time as we get that dentistry that's been deferred through the pipeline. I think when you look at our performance, the mid 7%'s, that is way above market and it's probably -- I don't think that's the long-term trend rate growth for the market. As far as the market itself goes, we will know a lot more when we see the distributors report. The data points we have now are three or four manufacturers that have reported, and the results right now are pretty inconsistent among those four. I think what we see the two distributors report in the next few weeks, we will know a lot more about the actual growth rate of the market right now.

This is a market that shouldn't vary a lot from period to period so I would expect, unless there is some dramatic change in events in the world, that we will see -- we should see the recovery here continue and remain reasonably around what we have seen for the last few quarters. We're talking about the future here, so it's yet to be seen, there's lots of uncertainty and risks. But I don't see great variances moving forward from here.

Steve Beuchaw - *Morgan Stanley - Analyst*

Following up on your comments on the distribution channel, have you guys seen any variability quarter to quarter in the levels of inventory in the distribution channel?

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Well, we do see levels change, but that is mostly tied to our price increases. When we do a price increase, we see the level of inventory go up in the channel and we usually see it come out in the next quarter. Absent that -- and this can be company specific too because they can be running promotions or whatever. But absent that, we haven't seen a lot of variance in our numbers.

Bill Jellison - *Dentsply International Inc - CFO, SVP*

Just a further comment on that, I think that we generally try to state during these calls as well if there is any significant movement in the dealer inventory channel in the period. Last quarter we actually said that despite the 3.9% that we -- last quarter meaning 2011 fourth quarter, we said about 3.9% and we said actually there were some dealer pullout during that period. I would say our generally -- our inventory levels with dealers are at very good levels at this stage. During the first quarter, we didn't really see much movement at all in that, so we think the numbers that we reported were pretty much corresponding to even an adjusted number there.

Steve Beuchaw - *Morgan Stanley - Analyst*

Okay, great, thanks, everyone.

Operator

Robert Jones with Goldman Sachs.

Verdell Walker - *Goldman Sachs - Analyst*

Good morning, this is Verdell Walker in for Bob Jones today. I just had a quick question today about the implant business. Can you talk about any market share shifts that you guys have seen within the market between your new integrated business and some of the more established players? Thanks.

Bret Wise - *Dentsply International Inc - Chairman, CEO*

That's -- Verdell, that's a really tough question to answer, because we think we are obviously gaining market share, but who you are taking market share from varies by customer, by dentist. And so it's hard to talk about trends other than just looking at internal growth for the five companies and seeing who is trending up and who is trending down versus the average. So, at this point, I think we continue to take market share in that market, although it's difficult for me to say who exactly it is coming from.

Verdell Walker - *Goldman Sachs - Analyst*

Okay, great, thank you.

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Thank you.

Operator

Yi-Dan Wang with Deutsche Bank.

Yi-Dan Wang - *Deutsche Bank - Analyst*

Thanks very much, a have a few questions. First of on your Implant business, certainly great performance -- great out-performance, shall I say. Can you give us a sense of how sustainable this is? This is been going on for quite some time, obviously very impressive, so if you could comment on that. And then secondly, also on implants, could you give us a sense of your growth in price and volume turns? Just want to understand how well you guys are able to hold your prices. And then the third question is on the subject of intra oral scanners. How important do you think this technology is to Dentsply? Maybe not immediately, but over the next three to five years and where Dentsply is with this technology. Thank you.

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Okay, so starting out with the implant market share gains, as you mentioned, that's been going on for some time. Both Astra Tech and Dentsply have a pretty well-established, well researched, lots of clinical data on our systems. In Dentsply's case, we've got two systems, we've got 25 years of data on one and I think 12 years or 10 years on the other, and Astra Tech has about 25 years of data, clinical data on theirs. These are proven systems. I think that the marketing is responsible and as you mentioned, we have been taking share. It's hard for me to say how sustainable it is, I hope it's sustainable and I don't see any evidence that it is not at this point. Number two on growth and was it price driven or volume driven, I'd say price is largely neutral. I'm going to ask Chris if he has anything else on that. But from my perspective, it would be primarily volume. Is there any --

Chris Clark - *Dentsply International Inc - President, COO*

We're getting a better price. I would say the growth we're seeing is probably a little bit more volume than price, but it certainly includes prices will.

Bret Wise - *Dentsply International Inc - Chairman, CEO*

A little positive price ago

Chris Clark - *Dentsply International Inc - President, COO*

Correct.

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Okay, and intra oral scanners, I think it is important to dentistry. I think what's most important -- the scan itself -- the scanner itself will eventually become a bit of a commodity. What's important is what you do with the digital data that comes out of the scan and whether you have an open system or closed system. But it is an important technology for the global dental market. I think you should expect that Dentsply will be involved in some fashion.

Yi-Dan Wang - *Deutsche Bank - Analyst*

Thank you very much.

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Thank you.

Operator

Brandon Couillard with Jefferies.

Brandon Couillard - *Jefferies & Company - Analyst*

Hi, good morning.

Bret Wise - *Dentsply International Inc - Chairman, CEO*

Good morning.

Brandon Couillard - *Jefferies & Company - Analyst*

Bill a bit surprised to see the share repurchase activity in the quarter. Do have a goal in terms of the net leverage ratio you would like to be at by the end of the year, or do you have more flexibility under those credit agreements? And then were there any other acquisitions in that M&A figure in the quarter outside of Astra Tech?

Bill Jellison - *Dentsply International Inc - CFO, SVP*

From our perspective, from a repurchase, we stated before that if we did repurchase at this point over the next few years, it would primarily be just tied into offsetting option levels. Our target level was pretty much right in the range that we actually ended up doing. From an overall leverage perspective for the end of the year, we still expect to generate a lot of cash obviously this year, and our main focus is absolutely on repaying debt. But I think that as select acquisition opportunities come along too, especially small or midsize tuck-ins, that we would at least be willing to take a look at those. But we do expect to make some improvements on our leverage ratio as we move through this year, and I think that as you look at the acquisition breakdown, yes, the vast majority of that was Astra Tech. There was a little bit out there for some smaller acquisitions, but most of it was Astra Tech related.

Bret Wise - *Dentsply International Inc - Chairman, CEO*

We haven't completed any acquisitions since the Astra Tech acquisition at this point

Bill Jellison - *Dentsply International Inc - CFO, SVP*

Correct, no additional ones since then.

Brandon Couillard - *Jefferies & Company - Analyst*

Okay, that is helpful. And then should we expect the inventory to continue to build until after the second quarter once you formally relaunch the Ortho line and then wind down from there into '13, is that how we should think about the working capital side?

Bill Jellison - *Dentsply International Inc - CFO, SVP*

No, I would probably say that our expectation is that our inventory levels are probably at pretty good levels at this point. That we would expect some improvement hopefully already in the second quarter of this year. The third quarter, generally it doesn't improve and if anything, it may actually even creep up a little bit. But that is our -- generally our second quarter and our fourth quarter are periods that we bring down, and especially in the fourth quarter. But we would hope to -- over the next one to two quarters, bring down some inventory off of current levels.

Brandon Couillard - *Jefferies & Company - Analyst*

Thanks, and then lastly, either for Bret or Chris, seems like a number of competitors seem to be stepping up their presence in the customized implant abutment arena. What's your view of the competitive landscape there and the outlook, and if I could get maybe just a comment on your sense of the low-end generic implant market environment and whether there has been any changes that you can speak to in the last several months?

Chris Clark - *Dentsply International Inc - President, COO*

Yes, Brandon, it is Chris. Glad to take that one. First from a customized abutment standpoint, we are really happy. Obviously, it is an attractive market and certainly, Atlantis has created that market and certainly captures a very strong share and I think with that, captures a fair amount of attention from other folks. I would say we're very pleased with the competitiveness of the Atlantis offering and certainly, the ability to bring our portfolio together to combine sales organizations to help push that through. And certainly there's competition, but I would say the total package in terms of what we can offer at this stage in the game we're pretty happy in terms of how that differentiates. I would say the same thing relative to the economy implants. The fact is there's a lot more to it than just the manufacturing of an implant. And certainly, the clinical support that all three of our product lines have, I think is a pretty strong differentiator relative to those types of competitors. So we're -- we view differentiations pretty critical, but we also are pretty pleased in terms of what we have at this point in time to differentiate with.

Brandon Couillard - *Jefferies & Company - Analyst*

Great, thank you.

Operator

Larry Marsh.

Larry Marsh - *Barclays Capital - Analyst*

Thanks. Just a quick one for Bill. You mentioned the new structure and the restatement in the Q, can you give us a sense of magnitude of how big of a restatement that is going to be?

Bill Jellison - *Dentsply International Inc - CFO, SVP*

No, that's only related to the segment, so it's just a mix of that segment makeup themselves, because differ managers are responsible for different portions of the business.

Larry Marsh - *Barclays Capital - Analyst*

Just reallocation of the businesses, right? That's right, you talked about that, okay.

Bill Jellison - *Dentsply International Inc - CFO, SVP*

We will still have four segments is just they will be shown slightly differently than they were before. And as soon as you get the Q, if you've got any questions on any of those, feel free to give me a call.

Larry Marsh - *Barclays Capital - Analyst*

And are you going to give us a restatement on that going backwards?

Bill Jellison - *Dentsply International Inc - CFO, SVP*

For any period that we show those segments at, any comparable period will also be shown in that same format.

Larry Marsh - *Barclays Capital - Analyst*

Yes, okay, very good, thanks.

Operator

Jeff Johnson.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

Thanks, hey, Bill, just one last modeling question here on the equity and affiliates line much lower than without this quarter. One is that DO Bond reevaluation, two, and I think you exclude DO Bond reevaluation then from the $0.52 EPS number and three, just any updates on the Korean dental implant market, which seems to be in flux right now, just how you're thinking about DO going forward?

Bill Jellison - *Dentsply International Inc - CFO, SVP*

Yes, that's correct Jeff. And there's a line item, that's one of the adjustment line items to get to our non-GAAP numbers as well. There's about $4.7 million at net that we took a negative hit for within this quarter on the income statement, and that is only to reflect our portion of their negative impact from marking up the convertible bond on their side. That is solely related to the increase in the stock price of their stock. As their stock price goes up, that makes our convertible bond in essence more expensive to them. But obviously more favorable to us. So, while we take a negative impact there, there is a much larger and an offsetting positive that we're running through, but we will run that through our OCI, it doesn't go directly through our P&L until the point in time that we convert.

So, if we select to convert that bond in the future, if there is an amount out there that previously had gone through OCI, that would also then run through our P&L. If we had converted, let's say in this period, we would have had about a $23 million positive net income impact in this period, which we would've also identified then as obviously a non-GAAP adjustment. So, anytime that, that stock price goes up, we're going to take a negative hit on our P&L until the point in time that we convert, if we do convert that. And again, any time you see that in our income statement were we haven't converted, there's a much larger amount in the opposite direction that we're also putting into our equity.

Larry Marsh - *Barclays Capital - Analyst*

Okay. And the -- yes, the Korean dental implant market?

Chris Clark - *Dentsply International Inc - President, COO*

Yes, Jeff, it's Chris. I would say overall relative --going to comment relative to DO, we're real happy in terms of their growth platform. We are seeing solid growth, we believe they're taking market share. Certainly, their growth, if we were to consolidate, would be accretive to our overall growth rate. We see a strong management team there and again, relative back to the emerging market comments, this is a platform that is doing pretty solid job in expanding into some other emerging market countries. Overall, we're pretty pleased with what we see there.

Operator

At this time, there are no further questions. I will turn things back over you, Mr. Leckow, for any additional or closing remarks.

Derek Leckow - *Dentsply International Inc - VP of IR*

Thank you, Vicky. Thanks, everyone, good questions. If you have any follow-up questions, please contact Investor Relations. That concludes our conference call today. Thank you for your interest in Dentsply. Goodbye.

Operator

That does conclude today's teleconference. Take you all for joining.
