

Scott P. Anderson, President & Chief Executive Officer
4th Quarter Remarks

- Good morning and thanks for participating in our fourth quarter conference call.
- I am humbled to be doing my inaugural call as Patterson's CEO, considering the two gentlemen who have preceded me in this role, Pete Frechette and Jim Wiltz, both outstanding leaders and change agents in the specialty distribution market.
- Let me begin by noting that joining me today is Steve Armstrong, our executive vice president and chief financial officer.
- At the conclusion of our formal remarks, Steve and I will be pleased to take your questions.
- Since Regulation FD prohibits us from providing investors with any earnings guidance unless we release that information simultaneously, we provided financial guidance for fiscal year 2011 in our press release earlier this morning.
- Our guidance is subject to a number of risks and uncertainties that could cause Patterson's actual results to vary from our forecasts.
- These risks and uncertainties are discussed in detail in our Annual Report on Form 10-K and our other SEC filings, and we urge you to review this material.
- Consolidated sales rose 4% to \$812.8 million in the fourth quarter of 2010.
- Internal growth accounted for 1% of our fourth quarter sales growth, with acquisitions and foreign currency adjustments accounting for the balance.
- Fourth quarter earnings of \$61.8 million, or \$.52 per diluted share, were up 15% from \$54 million, or \$0.46 per diluted share, in the fourth quarter of 2009.
- For the year, consolidated sales totaled \$3.2 billion, up 5% from \$3.1 billion in fiscal 2009.
- Net income for the year came to \$212.3 million or \$1.78 per diluted share, an increase of 6% from \$199.6 million or \$1.69 per diluted share in fiscal 2009.
- Patterson's overall fourth quarter results generally reflect the impact of the nation's slow economic recovery.
- This impact was particularly evident in the performance of our Patterson Dental unit, which recorded sales growth of 3% to \$547.3 million in the fourth quarter.
- Sales were affected by uneven patient demand for dental services that affected our consumables business as well as by the hesitancy of practitioners to commit to new capital investments.
- However, we believe the dental market is stabilizing, and we are encouraged by some preliminary indications that the market may be starting to strengthen.
- For example, sales of digital imaging systems, including sensors, panoramic and cone beam units, grew over 18% in the fourth quarter.
- Although a broadly based recovery of the dental market is expected to be gradual, we are taking a pro-active approach, having initiated new sales and marketing programs to stimulate sales in several product categories.
- This approach includes using our leadership in equipment technology to bolster our performance until the market recovers for basic equipment, including chairs, power units and cabinetry.
- As evidenced by the robust sales growth of imaging products, dental practitioners are more willing at this time to invest in systems that offer a strong return on investment over a relatively short period.
- For this reason, we believe the outlook for many of our technology products remains promising.
- And, while CEREC sales were off approximately 10% in the recent quarter, we strongly believe this product will be a significant contributor to the future of dentistry.
- In an economy where selling capital goods has been a challenge, CEREC sales rose over 15% for the year, and we believe that we should see similar growth in fiscal 2011.
- We also believe Patterson is positioned to capture a significant share of the equipment business, both basic and new technology, that has been deferred during the past two years due to concerns about the economy.
- From an operational standpoint, I also would like to briefly review a number of recent developments at our dental operation.
- We extended Patterson's exclusive distribution agreement for Schick digital X-ray products in the U.S. and Canada through December 31, 2012.

- Schick, a wholly-owned subsidiary of Sirona Dental Systems, is the acknowledged leader in digital sensor technology, which is one of the fastest growing segments in dentistry.
 - Extending our exclusive agreement with Schick will enable us to continue providing the best digital X-ray solutions to dentists.
 - And, as I mentioned last quarter, we are building a new, 100,000 square-foot, state-of-the-art technology center that will replace our smaller current facility.
 - This new center will serve the technology needs not only of dentists, but also of veterinarians and physical and occupational therapists.
 - We believe our customers will be embracing technology at a steadily growing pace, and our expanded technology center will enable Patterson to meet their needs.
 - Turning now to Webster, sales of our veterinary unit increased 2% in the fourth quarter of fiscal 2010 to \$162 million.
 - We were generally pleased with Webster's fourth quarter performance, although revenues were affected by a shift in its sales mix toward agency sales of certain pharmaceuticals.
 - This sales mix shift masked an increase in consumable sales that we believe would have been between 5% and 6% on a comparable basis.
 - We also were encouraged by improved sales of veterinary equipment.
 - Equipment, which constitutes a relatively small but growing portion of Webster's revenue stream, represents a key facet of Webster's drive to expand and strengthen its value-added proposition.
 - During the fourth quarter, Webster entered into an exclusive marketing agreement with VetSource, a leading North American provider of integrated pharmacy distribution services, including a home delivery capability.
 - We believe that offering the VetSource solution further strengthens Webster's value-added platform.
 - We also made a minority equity investment in VetSource, but since we closed this transaction late in the quarter, this transaction had virtually no impact on Webster's fourth quarter results.
 - Finally, the integration of Columbus Serum Company, a large value-added distributor serving the mid-Atlantic and Midwestern markets that was acquired in October 2008, was completed by the end of fiscal 2010.
 - Sales of Patterson Medical, our rehabilitation supply and equipment unit, rose 18% in the fourth quarter to \$103.5 million.
 - Internally-generated sales rose 4% while the acquisitions of Mobilis Healthcare Group in April 2009 and Empi Therapy Solutions in June 2009 accounted for the balance of the fourth quarter sales increase.
 - These acquired units are continuing to meet our expectations and their integration is proceeding on schedule.
 - Expenses related to these acquisitions continued to moderate in the fourth quarter.
 - The overall rehabilitation market continued to firm in the fourth quarter, and we believe Patterson Medical continued to increase its share of the global rehabilitation market during this period.
 - Reflecting the significant investments that we have made in Patterson Medical over the past few years, we believe our rehabilitation business is positioned as a strong growth driver going forward.
 - All in all, we believe Patterson Medical had an outstanding year, and we are excited about our future in this market.
 - Regarding Patterson Medical's future, we are continuing to identify and evaluate additional acquisition opportunities for this business.
 - I should add that our need to retain infrastructure in acquired entities will diminish, given the investments we have already made in this business.
 - This should allow us to integrate acquisitions faster and with less disruption to our operating metrics.
 - Before turning to our financial guidance for fiscal 2011, I would like to briefly review our capital allocation strategy.
- As previously announced, our Board of Directors approved initiating a quarterly cash dividend of \$0.10 per share in March, and the first dividend was paid on April 20 to shareholders of record at the close of business on April 2.

- Acquisitions and other critical investments in our three businesses will remain a top priority for our cash, and we believe that our earnings potential, strong financial condition and substantial operating cash flows provide the financial flexibility required to support both a dividend program and continued business investment.
- Also as part of our capital allocation strategy, approximately six million common shares remain available under our previously authorized 25 million share repurchase program.
- We intend to use this authorization to repurchase an equivalent number of shares as are issued under our employee share plans in order to maintain a relatively constant number of outstanding shares.
- As we stated in this morning's release, we are forecasting earnings of \$1.89 to \$1.99 per diluted share for fiscal 2011.
- It should be noted that the first quarter of the fiscal year includes one additional selling week, due to our 52-week, 53-week fiscal year convention.
- As we begin this decade with new leadership, we remain very optimistic about Patterson's future.
- Our three businesses have strong, sustainable competitive advantages, driven by talented and highly motivated employees.
- We are generating substantial operating cash flows, providing us with ample resources for supporting our various growth initiatives.
- And, the overall health of our three markets is gradually strengthening, and all have compelling long-term growth drivers.
- Thank you. Now, Steve Armstrong will review some operational highlights from our fourth quarter performance.

R. Steve Armstrong

Executive Vice President and Chief Financial Officer

Thank you, Scott.

- I want to begin my comments with a brief review of our gross margins.
- Consolidated gross margin improved 90 basis points this quarter, primarily as a result of improvements at the Medical and Veterinary segments.
- Our gross margin also benefited from Medical's higher revenue growth rate and its resulting favorable impact on our consolidated gross margin mix.
- In analyzing these margins, the improvements are generally the result of period-specific items such as rebates, and going forward, we would expect fiscal 2011 consolidated gross margins to be more in line with our annual results.
- Conversely, our operating expense ratio in the quarter is higher than we would expect to see going forward due to incentive compensation expense earned this year compared to last year.
- We are expecting to see improvement in our expense leverage in 2011, since as Scott noted, fiscal 2011 will be a 53-week year, and this generally allows the capture of more operating expense leverage in these periods, particularly on the fixed costs.
- Turning to operating margins by segment, the Dental margin was 12.9% for the quarter.
- The Veterinary and Medical segments reported operating margins of 7.7% and 16.7%, respectively.
- In the quarter, tax expense benefited from the dividends paid on the shares held by our Employee Stock Ownership Trust.
- This portion of the dividend is deductible on our income tax return.
- This benefit, along with several other discrete items, accounts for the majority of the difference in the tax rates between the periods.
- As we look to fiscal 2011, we expect a tax rate in the mid 37% range.
- Looking now at our cash flow, we generated approximately \$112 million from operations in the quarter, compared to \$54 million in the prior year.
- As many of you know, we made the decision to invest in various financing promotions to support marketing efforts directed at the CEREC product line beginning in the second quarter of our fiscal 2009.
- These promotions ran throughout the close of that fiscal year, and were used to a lesser degree in fiscal 2010.

- At this year-end, we held approximately \$62 million of finance contracts arising from the fiscal 2010 promotions that we could not immediately sell to our funding sources due to certain requirements in our arrangements with these entities.
- We expect to liquidate the majority these contracts in the first quarter of fiscal 2011, and should see an incremental impact on operating cash flow from the sale of these contracts in that period.
- A couple notes on the balance sheet, our DSO stood at 44 similar to the prior year-end, excluding the finance contracts just discussed.
- Our inventory turns improved to 7.1, up from 6.8 one year ago.
- Looking ahead to fiscal 2010, we expect our CAPEX to approximate \$35 to \$40 million, while depreciation and amortization should be in the vicinity of \$40 million.
- The CAPEX includes the new technology center and the build-out of the new South Bend distribution center.
- With that, I'll turn this call back to the conference operator, who will poll you for your questions.