

Third Quarter Fiscal 2008 Earnings Conference Remarks

James W. Wiltz
President & Chief Executive Officer

- Good morning and thanks for participating in our second quarter conference call.
- Joining me today is Steve Armstrong, our executive vice president and chief financial officer.
- We will be pleased to take your questions at the conclusion of our remarks.
- Since Regulation FD prohibits us from providing investors with any earnings guidance unless we release that information simultaneously, we have included financial guidance for the third quarter of 2009 in our press release earlier today.
- 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.
- Turning now to our second quarter results, consolidated sales rose 2% to \$759.5 million.
- Earnings per diluted share increased to \$0.40 from \$0.39 in last year's second quarter.
- As many of you know, the additional interest expense associated with the \$525 million of long-term debt financing that we completed in last year's fourth quarter served to reduce our net income, year-over-year, in the year's first and second quarter.
- This impact will continue to affect the year-over-year comparability of our net income over the balance of 2009.
- Now, I will briefly review the performance of our three businesses.
- The second quarter operating results of our Patterson Dental unit were well below forecasted levels due, we believe, to the impact of the difficult economic environment on its business, particularly in October.
- Available evidence indicates that dental patients started deferring higher level as well as discretionary services, which largely accounted for the soft sales of consumable supplies in the quarter.
- Reflecting the strengthened focus on sales of dental equipment that we initiated earlier in the year, equipment sales were relatively strong during this period.
- In fact, sales of basic dental equipment, chairs, power units and cabinetry, were up 7% in the second quarter.
- However, much of this growth was generated by orders placed prior to the economic turmoil that erupted during the second quarter.
- We believe it is possible that the continuation of challenging economic conditions may affect the equipment purchasing decisions of dental practitioners at least over the near-term.
- I would like to emphasize that the dental market is not...and never has been...recession-proof.
- However, dentistry is more resistant to weak economic conditions than many other businesses, and I believe this is what you are seeing with our current operating results.
- This is why we have remained solidly profitable amid today's challenging economic conditions, although at lower than forecasted levels.
- It also is why we expect to remain solidly profitable during the duration of these recessionary conditions.
- Turning now to our veterinary and rehabilitation units, Webster Veterinary and Patterson Medical were also affected by the difficult economic environment but to a lesser degree than Patterson Dental.
- Sales of our veterinary supply unit increased 14% in the second quarter of fiscal 2009 to \$123.6 million.

- The October 2008 acquisition of Columbus Serum Company, a full-service distributor of companion-pet veterinary supplies, equipment and pharmaceuticals serving the Midwestern and mid-Atlantic markets, accounted for 10 percentage points of Webster's second quarter sales increase.
- This acquisition was an important strategic investment, since it materially strengthened Webster's geographic coverage, while improving the economies of scale of this business.
- The integration of this large and well-established distributor is proceeding on schedule.
- Sales of Patterson Medical, our rehabilitation supply and equipment unit, were \$99 million in this year's second quarter, virtually unchanged from the year-earlier level.
- Patterson Medical's second quarter performance was adversely affected by the conversion to Patterson's management information systems at the start of the quarter, which caused some disruption to the business's operations.
- Issues related to this complex systems transition have been largely resolved.
- Patterson Medical has made significant progress over the past two years at strengthening its operations and market position, and we believe this business is increasingly well positioned to realize its full potential in the global rehabilitation market.
- Before turning to our financial guidance for the third quarter, I would like to discuss the expense reductions mentioned in this morning's release.
- Given our expectations for a continuation of weak economic conditions and the anticipated impact on Patterson's overall sales growth, we are taking steps to reduce our cost structure by an annualized \$20-25 million.
- The company-wide actions that we are implementing encompass a range of initiatives, including a hiring freeze except in the area of sales representatives, a wage freeze and restrictions on travel.
- The initial impact of these expense reductions will be realized in the third quarter, and the full impact will be apparent in the fourth quarter.
- While it is absolutely essential to streamline our expense structure during these uncertain times, we also intend to continue making strategic investments in our business, supported by the forecasted continuation of strong operating cash flows.
- Strategic acquisitions are one such investment that we intend to continue pursuing.
- Further consolidations of our distribution facilities are a second investment we plan to continue.
- Turning now to the guidance contained in this morning's release, we are forecasting earnings of \$0.43 to \$0.45 per diluted share for the third quarter ending January 24, 2009.
- We also have reduced our fiscal 2009 guidance to \$1.73 to \$1.77 per diluted share from our previously issued full-year guidance of \$1.94 to \$1.98 per diluted share.
- In closing, I want to say that we are taking the actions required for operating effectively in today's challenging economic environment.
- And backed by our financial resources, we plan to continue pursuing a range of growth opportunities.
- Thank you. Now Steve Armstrong will review some highlights from our second quarter results.