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DENTSPLY SIRONA Inc. (XRAY) CEO Donald Casey on Q3 2019 Results - Earnings Call Transcript

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Q3: 11-07-19 Earnings Summary

Press Release *Slides*

EPS of $0.57 beats by $0.07 | Revenue of $962.1M (3.63% Y/Y) beats by $21.7M

Earning Call Audio

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DENTSPLY SIRONA Inc. (NASDAQ:XRAY) Q3 2019 Earnings Conference Call November 7, 2019 8:30 AM ET

Company Participants

John Sweeney - VP of IR

Donald Casey - CEO

Jorge Gomez - EVP and CFO

Conference Call Participants

Tycho Peterson - JPMorgan

Jeff Johnson - Baird

Brandon Couillard - Jefferies

Michael Cherny - Bank of America

Elizabeth Anderson - Evercore

Courtney Owens - William Blair

Trevor Brown - Stifel

Jonathan Young - Barclays

Jason Rodgers - Great Lakes Review

Erin Wright - Credit Suisse

Operator

Ladies and gentlemen, thank you standing by, and welcome to the Third Quarter 2019 Dentsply Sirona Earnings Conference Call. [Operator Instructions]

And now I'd like to introduce your host for today's program, Mr. John Sweeney, Vice President of Investor Relations. Please go ahead, sir.

John Sweeney

Thank you, Jonathan, and good morning, everyone. Welcome to our third quarter 2019 earnings conference call. I'd like to remind you that an earnings press release and slide presentation related to this call are available on our website at www.dentsplysirona.com.

Before we begin, please take a moment to read the forward-looking statements on our earnings press release. During today's call, we will make certain predictive statements that reflect our current views about future performance and financial results. We base these statements and certain assumptions and expectations of future events that are subject to risks and uncertainties. Our most recent Form 10-K lists some of our most important risk factors that could cause actual results to differ from our predictions.

And with that, I'll now turn the program over to Don Casey, Chief Executive Officer, Dentsply Sirona.

Donald Casey

Thanks, John, and thank all of you for joining us on our earnings call.

As you can see from our materials, we had a solid third quarter. Our results show that we are making progress against our restructuring plan, as measured by both our financial results, as well as important executional milestones.

Looking at the financial highlights from the quarter, internal growth reached 7.5%, above our expectations and higher than anticipated Primescan shipments and improved consumable sales. A combination of solid sales growth and continued operating discipline contributed to a 510 basis points expansion in our operating income margin versus the prior year. Non-GAAP EPS for the quarter was $0.57, up 51% versus year ago. Operating cash flow was strong at $159 million, up 27% versus the prior year.

In addition to the financial performance, we saw progress in many important areas. We had a robust product launch program in the third quarter. The organization launched new loyalty program as part of our overhaul of the promotional strategy and we saw progress in multiple countries in building out our sales force effectiveness program.

On the corporate governance front, we announced the appointment of Janet Vergis to our Board of Directors. So overall, while we understand there is a lot to be done, the third quarter shows continued progress and gives us reason to be optimistic about our future.

I will now hand the presentation over to Jorge to review our financial results.

Jorge Gomez

Thank you, Don.

Before I dive into the details of our performance, I'd like to take a moment to express how excited I am to join Dentsply Sirona. We are well positioned in a very attractive and evolving space in healthcare. The commitment of the Board of Directors and approximately 15,000 associates around the globe to use our scale and capabilities to enable growth is very clear to me. We have tremendous products, integrated solutions and a great commitment to innovation. These are all key ingredients to pursue and deliver sustainable growth.

Turning to Q3 non-GAAP results on Slide 8. We are pleased with the early results stemming from our restructuring plan. It is clearly demonstrated in our solid third quarter performance, with strong sales growth, considerable margin expansion and substantial improvements in EPS and operating cash flow.

Third quarter sales of $951 million were up 2.9% versus last year. When on internal growth basis, sales increased 7.5% driven by strong growth in technologies and equipment and improved performance in our consumables business.

Third quarter revenues came in ahead of expectations, a function of solid execution by our teams who delivered more Primescan units than expected. In addition, consumable sales were higher than anticipated, partially due to timing of orders and shipments. Currency was a revenue headwind of approximately 2% in the quarter, mainly due to the strengthening of the US dollar relative to the euro.

Gross profit was $548 million or 57.6% of sales, up 219 basis points as compared to the prior year. More than 50% of the gross profit margin improvement was driven by our efficiency and portfolio shaping initiatives. Favorable pricing and positive FX accounted for most of the remainder of improvement.

Total SG&A of $376 million was 4.1% better than prior year. SG&A as a percent of sales improved 290 basis points to 39.5%. Our teams continue to do a great job executing on operational and portfolio initiatives, and these efforts accounted for the majority of the margin expansion.

Operating income increased 43% to $172 million in the quarter. Operating income margin of 18.1% expanded 510 basis points versus last year. The tax rate for the quarter was 24.75%. And third quarter EPS was $0.57, up 51% year-over-year.

Moving to segment performance on Slide 9. The Consumables segment accounted for 44% of our sales. In the third quarter, consumable sales were $416 million, up 1% and up 3.2% on an internal sales growth basis. This performance was driven by growth in restorative and endodontic products, offsetting part by declines in our laboratory products business. As you may recall, last year's consumables performance was impacted by disruptions at our Venlo distribution facility in Europe.

As Don said, we are changing our promotional strategies. As a result of this shift, we are expecting uneven growth in our consumables sales over the short term. An example of the types of changes we are making is our One DS loyalty program, which was launched in September.

This program rewards dentists for purchasing Dentsply Sirona consumables, both through our distribution partners and directly from us. While it is early in the execution of this program, we are encouraged by the results. One DS is an excellent example of how we are executing on two key operating principles, owning our own demand creation and approaching the customer as one Dentsply Sirona.

In the third quarter, Consumables' operating margin was 27.3%, an increase of 250 basis points as compared to prior year, mainly driven by efficiency initiatives and positive pricing trends.

On Slide 10, we highlight our Technologies & Equipment segment, which accounted for 56% of sales. Third quarter T&E sales were $535 million, up 4.5% versus prior year, representing a strong 11% growth on an internal basis. Key drivers of this growth were Digital Dentistry, which includes the CAD/CAM and Orthodontic businesses and Healthcare, offset in part by Equipment & Instruments performance, mainly a function of the ongoing competitive pressures in our Imaging business.

Growth in Digital Dentistry was strong, a result of the successful Primescan lunch. In the third quarter, we had higher-than-anticipated manufacturing production of Primescan. We continue to work hard to manufacture enough units to satisfy the robust demand, which is partially fueled by the recently announced upgrade program in the US.

In October, we announced that previous generation CEREC owners in the US market an upgrade to Primescan with an attractive discounts. All our US digital impression system owners can also take advantage of the Primescan upgrade offer. We expect the upgrade program to add to our overall sales performance and anticipate that it will be accretive to our overall financial results.

Technologies & Equipment operating income margin was 19.6%, up 1,020 basis points as compared to the prior year. About half of this improvement was due to higher sales growth fueled by Primescan and the high level of dealer destocking last year. The remaining margin expansion was driven by our efficiency and portfolio shaping initiatives.

On Slide 11, we present our business performance on a regional basis. US sales of $336 million increased 1.5% compared to the prior year and increased 4.6% on an internal sales growth basis. We experienced solid growth in our Technologies & Equipment sales driven by Primescan and the impact of dealer inventory destocking in the prior year. US consumable sales declined in the quarter, but improved as compared to the second quarter.

European sales were $352 million, up 2.7% compared to the prior year, and up 8.4% on an internal sales growth basis. The European sales increase was driven by Primescan. Consumable sales saw a solid increase versus last year. However, please remember that we experienced shipping disruptions at our Venlo European distribution facility in the third quarter of 2018.

Rest of the world sales were $263 million, up 5.1% compared to the prior year, and up 10% on an internal growth basis. T&E growth was mainly driven by Primescan sales as we started shipping to some countries that had not previously received regulatory approval. Consumable sales were slightly positive in this region.

Moving on to Slide 12. We generated a strong operating cash flow of $159 million in the quarter. We are increasing our focus on making our operations more capital efficient, and we are continuing to work on improving our cash conversion cycle. Free cash flow was $136 million in the quarter. Capital expenditures were $23 million.

During the quarter, we bought back 1.9 million shares for a total of $100 million repurchase under our outstanding authorization. In addition, we paid $20 million in dividends, resulting in a total of $120 million returned to shareholders during the third quarter.

Including share repurchases and dividends, we have returned to shareholders over 50% of the operating cash flow generated year-to-date, while sufficiently funding our key initiatives. Capital allocation is a priority for me and Dentsply Sirona. We will continue to follow a disciplined and prudent approach to assessing specific capital deployment options for the corporation.

Our first priority will remain investing in the business to make sure our restructuring is successful and to enable sustainable growth. We have a dividend which consistently rewards our shareholders.

We will be opportunistic about share repurchases as we were in the last quarter. Disciplined portfolio management is of high importance to us. Over time, we intend to optimize our portfolio by shedding underperforming assets and adding capabilities to drive sustainable growth for Dentsply Sirona.

Moving to Slide 13 where I will share our expectations for the rest of the year. We are pleased to deliver Q3 results that exceeded our original expectations. And importantly, we are seeing our performance improvement initiatives gain traction. As a result, we are updating key elements of our expectations for 2019.

We now anticipate internal sales growth for the full year to be toward the - at the upper end of the guidance range of 4% to 5%. We are also increasing and narrowing our EPS guidance from the previous range of $2.35 to $2.45 to the new range of $2.42 to $2.48.

Regarding our long-term financial metrics and aspirations on Slide 14, let me make a few comments. On the one-year anniversary of the announcement of the restructuring, I'm pleased to say that we are making substantial progress toward achieving these objectives. Our products and commercial initiatives are gaining traction and we believe will enable sustainable internal sales growth in the 3% to 4% range.

By the end of 2019, we expect to have completed approximately $85 million of cost savings and we remain on track to deliver the full $200 million to $225 million in savings by 2021. To achieve these savings, we expect about $180 million of restructuring charges, about $110 million of which will be cash.

We have made good progress in improving margins with adjusted operating income margin up 290 basis points year-to-date, and our cash flow and liquidity continue to improve. As a new member of the team. I'm committed to the achievement of these goals.

We have to use the scale of our assets and innovation capabilities to deliver returns in alignment with these aspirations. Our approach to executing this plan will remain structured, decisive and mindful of the right investments required to drive long-term growth.

With that, I will now turn the call back over to Don.

Donald Casey

Thanks Jorge.

It's great to have you part of our team. I wanted to provide some additional perspective on our restructuring and build off some of the areas highlighted by Jorge. On Slide 16, you can see the outline of our November 2018 restructuring, which was focused on the priorities of revenue growth, margin improvement and organization simplification.

The key priority has always been driving revenue growth. To deliver that, our plans have been built around accelerating new products, improving demand creation and driving clinical education. In terms of new products, the biggest change we've made has been moving to a portfolio approach across our R&D projects. This process forces focus on which projects can generate the largest impact on the entire company and take full advantage of our unique portfolio.

Moving now to Slide 17. It is clear that our strategy is beginning to work, as evidenced by the step change in new product launches that we are seeing in 2019. We continue to see strong momentum from our Primescan launch as we introduce it into new regions around the world. Primescan is the gold standard in the dental scanning technology area. It is more accurate, faster, easier to use and it integrates seamlessly into dental practitioners' workflows.

We also launched CEREC 5.1 software, which represents a performance upgrade for CEREC. The addition of OraCheck allows the dentist to visualize 3-dimensional changes from virtual optical scans over time on their own computer creating a valuable new diagnostic tool.

Now looking at Slide 18, where we highlight some of our third-quarter US product launches. We introduced the Astra Tech EV implant system, which was developed to provide excellent stability for improved outcomes in any type of bond. This implant system works well in either delayed or immediate load cases. In the Imaging space, we launched a new Schick sensor, one that generates excellent image quality even at lower X-rays doses.

In addition, our Imaging business will benefit from the US launch of new versions of the Orthophos, E, S and SL panoramic imaging lines. The TruNatomy Endodontic Files system is an important new product in the Endo area. And finally, we officially launched our partnership with Carbon for the 3D printing of digital dentures.

In all, it was a strong third quarter performance from our R&D team and we expect that momentum to continue. In order to realize the full value of our innovations, it is critical that we have a world-class commercial engine.

This has been an area of focus for Dentsply Sirona over the past year. The charge here has been simple, how do we improve our demand creation process? In the third quarter, there has been a lot of activity that demonstrates the breadth of this initiative.

Moving on to Slide 19. As Jorge mentioned, the third quarter saw the launch of an important new loyalty program named One DS. For the very first time, we are rewarding customers for their purchases across the entire Dentsply Sirona line. This highlights the shift we've been making in our promotional program.

We are more focused on building relationships with dentists, delivering clinically relevant products, arming our salesforce with impactful tools that advantage us in the marketplace, and at the same time, give strong incentive to dentists to try our new products.

We have just passed the 6-month mark of putting our salesforce effectiveness program in place in the US. So far, the results have been encouraging. Based on what we've learned, we will be rolling our salesforce effectiveness program to additional countries around the world over the next few quarters.

Moving on to Slide 20. Another example of improving our demand creation activity DS World. This is a program unique to Dentsply Sirona. And this year, we brought together over 7,000 dental professionals for a full program of continuing education and practice management improvement classes. It is unlike any other event in the industry and helps position Dentsply Sirona positively in the eyes of the dentists.

This year, we saw a major step-up in attendance, which is important given that DS World is a dynamic product launch platform. At DS World, our revamped salesforce capabilities were on full display.

Our salesforce now utilizes a common CRM system that allows us to talk to the customer in a single voice. Our newly deployed clinical development managers engage our high-priority customers from a single point of contact and now with a single loyalty program.

Moving to Slide 21. In addition to revenue growth, the second priority of the restructuring was improving our margins. We've taken a number of steps here including portfolio management focusing on fixed cost reductions and taking a disciplined approach to spending.

Our simplified organization structure now includes a centralized supply chain function, centralized procurement and other ways we can take advantage of our scale. These efforts help drive the 510-basis point improvement in OI margins this quarter.

I would also note at this point we have now exceeded the headcount target outlined in the restructuring plan of 15,000 to 15,300 for the past two quarters. Jorge and I would like to acknowledge and thank the entire Dentsply Sirona team for all their excellent work. With all of these initiatives, we are mindful of the need to create consistent and sustainable improvement.

The management team recognizes that we have a lot of work in front of us, but as we look at our pipeline going forward, the progress we've - been - made in improving our innovation process, our commercial effectiveness and our simplified organization, we have good reason to be optimistic about the future.

With that, I would like to thank all of you for joining us today and we will now move on to questions. John?

John Sweeney

Operator, we'd like to open it for questions at this point in time. Thank you.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Tycho Peterson from JPMorgan. Your question please.

Tycho Peterson

I'd like to start with consumables, a little bit more than we had modeled in the quarter. I know you're talking about the DS loyalty program. Can you talk a little bit about how you think that flowing through the next couple of quarters, obviously you have a tough consumables comp in the fourth quarter, and I think the implied ramp is still about 4.5%. So how do we get comfortable with that step-up against the tougher comp in the midst of kind of rolling out thIS DS loyalty program for consumables?

Donald Casey

Yes, Tycho, thanks for the question. Look, we've said a couple of times that we think the consumable progress is going to be a little bit uneven over the next couple of quarters, and it's really the result of the change in the promotional program and One DS in our mind is a great example of what we're trying to do. We had a very successful launch of that program in the US at DS World, we exceeded the number of dentists we thought that would sign up for it and the results we've been seeing from the dentists that have signed up has been very, very encouraging.

So, again, we see the underlying activity that we're putting in place as something that is, once we get through some of the promotional short-term choppiness is going to drive demand for our products.

The second thing I would - and Tycho, you know this, obviously our Resto business and our Endo businesses are big, strong and important business for us, and we feel pretty good that we now have some innovation lined up, which has been lacking in those two particular areas over the last couple of years, I mean, if you look at the Resto business with Surefil one, Palodent 360, we're feeling pretty good about that.

We've had a very good reaction to TruNatomy which is really the first new theory of how you should be managing root canals in a while, and in our KOLs and as we've rolled that out, we've seen positive response. So look, I think our formula is, we've got to innovate at a faster clip than we have in the past, we are feeling very good about our clinical education programs.

And the final issue is, we have changed our promotional programming and things like One DS which is off to a very good start, are things that we believe will allow us to deliver sustainable growth over the next year. In terms of the specific fourth quarter comp, we recognize that and we've taken that into account with the guidance that Jorge provided.

Tycho Peterson

And on the innovation front, no mention of SureSmile on the new product slide, just curious why that was omitted and how you're feeling about that rollout?

Donald Casey

We're feeling great about SureSmile. It's interesting, you know, in retrospect, when we put all the material together, we said we should have said something about SureSmile. I would just say, first, we've been trying to focus the communication here on what were the macro drivers for the entire company, and well, we're feeling very good about SureSmile and believe it's making significant progress. It's not big enough to drive the entire company.

So we didn't include it as a company driver, but SureSmile is right on track against the plan we had put out for it. We are increasingly optimistic based on what we saw at DS World and the reception that the CERC doctors had to it and we think it's clearly a growth driver for the future. Just right now, it's not big enough to drive the entire company.

Tycho Peterson

And if I could ask one last quick one. Your equipment numbers were good. We heard from your biggest peer about slowdown in developed markets on the equipment side, it doesn't seem like you've seen anything. Is that fair to say? And can you comment on October at all?

Donald Casey

Sure Tycho. Let's divide some of that up. I mean, obviously, we're very happy with what's going on with Primescan and we continue to be gratified with the reception that's had in the marketplace. In Jorge's prepared remarks, he also mentioned, though, that we've seen some continuing challenges in the Imaging space whether that's from competitive or pricing pressure, it's certainly been an area of focus for us.

We feel that we missed the wide field of view, innovation, and basically, what we're talking about right now with the new Schick sensor, we finally got the Orthopos line, which gives us a much more competitive lineup available in the US.

And one thing that we're starting to really trying to understand is do dentists look at their capital spending in kind of a bucket? So if they're going to go buy CAD/CAM, are they going to be a little softer across other parts of the lines? So overall, we're extremely happy with our Technology & Equipment line, and again, that's led by Primescan, but there are some things that we got to work on.

Operator

Our next question comes from the line of Jeff Johnson from Baird. Your question please.

Jeff Johnson

Don, I wanted to follow up on your consumables comment, I think in the answer to Tycho there, you talk about sustainable growth in consumables kind of heading into next year. I just want to push on that a little bit. I mean, obviously you've got the Venlo noise from third and fourth quarter here and will get past that. But as you get into next year, it sounds like you do still feel confident regardless kind of market maybe being flattish on the consumables side that you guys can grow above that.

And then in, I know, we recently wrote, we kind of talked about some big growth rates we are hearing about in your DS World accounts those dentists who have signed up your loyalty accounts. Are you seeing kind of sustained big growth in those accounts and is that one of the drivers? And then how to think about consumables growing for you next year, even if the market doesn't a whole lot?

Donald Casey

Yes, thanks, Jeff. Let me - there were a couple of questions in there. Let me make sure I answer them. So do we think that given the innovation, clinical education and the promotional programs we're putting behind our consumable business, once we clear the Venlo noise and some of the promotional shifting? Yes, we think that we should be able to grow at the levels that we've talked about in our restructuring, which is long term we think consumables can be at 2% to 3%, and look, every day, I come to work trying to improve on that. That's the first part of the question.

The second part was, what are we seeing with One DS? First, we were very, very happy with the response rate. We got to dentists signing up at DS World, which is really when we launched the program. Second, we've been really gratified by the support that our partners have put behind it and they're recognizing that as an opportunity to create volume there.

So again, we're getting good expansion of the One DS program. The results were kind of a month in, we've been very, very encouraged and I know you were at DS World, and if you were able to talk to some of the dentists as well as some of the US folks that have really focused on this program, we believe it is a long-term driver for us.

The only, I think, Jeff, I'd say, and I don't want to diminish the importance of this, if you go back and look at our consumable business and we get a lot of questions about what do you think the base consumable level of growth is, and things immediately kind of focus on channel dynamics, I go a little bit further upstream and sit there and say, OK, when is the last substantive Endo launch that we've had in our space? And it's been a while. If you look at our Resto business, which I think is a well-run business for us, but we really hadn't seen a big launch in close to 18 months.

So again, if we can up the cycle of real innovation that's going to provide benefits to the dentists whether it's time saving or better clinical outcomes, that's we think is really, really important to us and I'm starting to feel a lot better about the pipeline that we have in our consumables space.

Jeff Johnson

And maybe a quick follow-up question just for Jorge or maybe Don for you just on the - about I guess it's what, a $125 million in cost savings remaining over the next two years to get to that $200 million to $225 million number by 2021. Those cost savings are going to be helpful to the model. Can you help us understand kind of some of the offsets to or potential offsets to those though, it sounds like maybe R&D investments you do want to sustainably take a little bit higher, it would seem like you're ahead of the headcount reduction count that you've talked about in the past, but I think there could be some people and maybe infrastructure investments going back into some other markets over time, obviously pricing hasn't been overly helpful on the imaging side or some other parts of the market. So just how do we think of the offsets to those cost savings or can those cost savings flow straight through to the bottom line?

Jorge Gomez

Jeff, this is, Jorge. Thanks for the question. Obviously, we're trying to balance all the priorities that we have as a company. And so that include we have aspirations and targets for margin expansion. So a lot of those savings will absolutely help get us there. In order to get to those margins, we also need to drive the top line, and we need to make sure that we invest in innovation.

So you made the point about R&D. We are extremely focused on R&D, and Don just talked about our pipeline in the consumables. So some of those savings will be reinvested in developing or propelling our top line.

There is also other things that we will be doing that will be used to fund our investments that not necessarily come from these savings. We have - we are improving our disciplined from a commercial standpoint in terms of how we use our promotional dollars. We're paying a lot of attention to pricing right now.

That's one area where, for example, we just hired, we recruited a Global Head of Pricing, and we are going to be able to benefit from the work in that space and those type of benefits will be reinvested in the business and some of that will flow through the bottom line. So it's going to be a combination, it's going to be a balanced approach trying to hit all the targets that we have in mind.

Operator

Our next question comes from the line of Brandon Couillard from Jefferies. Your question please.

Brandon Couillard

Don, just curious how you're feeling about the implant franchise. Could you speak to the growth in the third quarter. And then just how differentiated the new Astra EV implant is and whether that's available globally now?

Donald Casey

Yes, thanks, Brandon. Personally, I would like to avoid putting any implants in my own mouth, but you asked more generally, I think. Look, our implant business is one that we're focused on, it's big, it's profitable. It's basically been holding serve, it's up a little bit, down a little bit over the last couple of quarters.

We think we have to do a better job on our implants, because if you look at what the category is doing, it's clear that we are losing share by just basically posting de minimis growth. We've done a number of things to really, in my opinion, begin to focus on how do we grow that business. We mentioned last call that we put a new leadership team in, one of our best people, and this team is making real progress.

We're starting to treat all our four brands as well as our MIS value brand as part of the portfolio and being very thoughtful about how we look at that. We've really combined R&D efforts and we have a very clear path over the next couple of years in terms of how we need to not only evolve to keep up with the category but get back to the point where we are the innovator in the category, which is where Ankylos and Astra came from.

In terms of our EV system, we feel it is outstanding and we wouldn't have launched it unless we feel that it's got a competitive advantage. We have been missing an immediate load screw. We think our design is novel and clinically differentiated. The feedback we've been getting from our KOLs has been very, very strong, and again, the reaction when we finally deliver real news is like, Jeez, we've really kind of been waiting for an immediate load screw, we've got that.

But in my mind, implants is more than that. I think we have an opportunity, if you look at our Atlantis franchise, which is a custom abutment. If you look at the fact that we've just really started expanding our MIS value brand around the globe.

We continue to think we've got a lot of runway there, but I would sum it up by saying implants is not tracking with the category, over the last three or four quarters, it's kind of been neutral. There has been a quarter where it might be up a percent, down a percent, but it's really in my mind critical that we at least begin to hold share and then look to expand beyond there. So I would put this franchise in the needs improvement area.

Brandon Couillard

And question for you, Jorge. Just first, can you spike out the impact of currency on gross and operating margins in the third quarter? And then do you have an update for us in terms of CapEx for the full year?

Jorge Gomez

Sure. On currency, as I indicated in my prepared remarks, on the top line, FX was a significant headwind, was just over 2%. The majority of that impact came from the euro and a lot of that dropped down to the gross margin. Obviously, within gross margins are elements in terms of costs that some - offset some of the negative headwind. But net-net, from a top line perspective, it was pretty negative, mostly the euro.

With respect to capital expenditures, in the quarter, we had about $23 million of investment. We continue to improve the rigor that we are applying to the approval of projects and we have a very, very good process internally. We are investing in the areas that are aligned with the priorities of the company and that has resulted in a little bit of a lower number this quarter. But over time, we believe that we will be funding all the capital requirements that we need.

And we are in the process of putting together the budget for next year, and next time we talk next quarter, we have a pretty good perspective for what I think should be kind of the organic rate of investment in capital expenditures, of course, that's going to be driven by what the project yields are in the next month or so.

Operator

Our next question comes from the line of Michael Cherny from Bank of America. Your question please.

Michael Cherny

Thanks so much for taking the question. I want to dive back a little bit, it's just into the overall consumables franchise. I know there's been some comp effects. You mentioned some of the Venlo dynamics. That being said, you had talked about the promotional changes last quarter, I guess, aside from the One DS program, was there anything else that either had hit you last quarter, that got better than you had expected. My understanding is that some of the promotional changes would take a little bit longer to lined out than you would have thought. And then obviously with One DS, the sign-ups being great at DS World, just curious to get an understanding of timing and some of the other factors that may have drove to that outperformance on consumables?

Donald Casey

Thanks for the question. Look, we did better in consumables this quarter than we thought. And obviously, there is the Venlo noise that goes through this which you identified. I would just tell you, I still think we're a quarter or two away from understanding exactly what the promotional impact change is going to be.

And look, we're happy with the third quarter, our guidance obviously reflects what we think we're going to do in the fourth, but it's going to take us a couple of quarters, because this is - we've been pursuing one kind of promotional programming for 25 years and we're in the process of changing that.

But I would tell you, the one - the profound changes in the US in addition to finally giving the salesforce the news it needs with really good clinical innovation, we went through a pretty significant salesforce effectiveness program, we introduced this new concept of clinical development managers, a common CRM platform, and now we've introduced the loyalty program. And the loyalty program, the response has been really strong. You know, to be honest, we've exceeded what we expected.

In terms of number of sign-ups, it's exceeded what we thought in terms of the impact on the customer behavior since leaving DS. I mean, we can obviously see exactly what they're doing and we're very, very encouraged by it. The fact that our dealer partners have really jumped on this as a way of expanding demand, we continue to think we're going to sign things up. Do I think it's going to be immediate shot in the arm in the fourth quarter? Probably hard to measure.

But again, I think we just want to say we're trying to do the right things for the consumable business to provide that 2% to 3% growth that we indicated in our long term, which is innovation, clinical education and improving our demand, and our demand creation activities, whether it's things like One DS or salesforce effectiveness program, we feel is going to get us to where we need to be in consumables.

And look, I'd - we're - again we're trying to be as transparent as we can, those things are going to be a little bumpy. And this was a positive bump. But look, I'll tell you if you're sitting in my chair and you look at the portfolio of products we have, we recognize absolutely how important having consumables grow is and we're committed to the program that we need to see that as something that we are driving consistent growth on a sustainable basis over time.

Michael Cherny

And maybe just to dive on a little bit further into one of the comments you made regarding the interaction with the dealer partners that you have here. As you think about the pathway forward for growing some of these directly some of this CRM management, some of these loyalty programs, what are you hoping that your dealers do differently to change their strategy, their performance, their responsibilities with you? And I guess along the same lines, will at some point get to an area where the customer is essentially deciding, do I place that order through the dealer versus I place that order directly through the promotional strategy? I guess how does that play out over time?

Donald Casey

So we get asked this question indirectly in the number of different ways. Here is kind of how we view this. First, our dealer partners have been terrific about One DS. They look at the same way we do as a great way to accelerate trial of our critical innovations and it also has a wonderful opportunity to tie in equipment and consumables in a unique way, and as a result, we're all interested in selling more. So that's been terrific.

In terms of - let's remember, we have a direct and we have an indirect part of our business, our Ortho implants, Endo businesses, our direct businesses, which we have always had direct relationships with the dentists. On the consumables side, prevention, lab, Endo - excuse me, prevention lab and those businesses are traditional consumable businesses and we're going to continue running through the dealers.

I mean, they provide, we've said this a number of times, really great service in terms of, they help to do demand creation, they run order to cash, they manage extremely complex logistic business, and they are terrific partners.

So our aim and how we look at things is, hey, we're supposed to come up with great innovation and we're supposed to help educate the dentists clinically and we're supposed to create as much demand for our products as we can and we work with our dealers to help spur that demand further and they provide a incredibly important part of our value chain.

Operator

Our next question comes from the line of Elizabeth Anderson from Evercore. Your question please.

Elizabeth Anderson

And as you think about moving into the second phase, so to speak, or 2020 in terms of cost cutting, are you seeing the sort of the opportunity set there change? Is it sort of as you expected? I mean, I know you sort of commented quantitatively, but I'm looking more like qualitatively across your experience in the business.

Jorge Gomez

This is Jorge. Yes, we have made, I would say, during the first phase of the restructuring from a cost take-out perspective, we've made significant progress. And as I indicated, we are going to achieve approximately $85 million this year. We have - we are following an extremely detail and rigorous process to identify opportunities to put initiatives in place and to track those and we have a very healthy pipeline of projects and opportunities that have been already identified, and that to your point, will require more work and a little bit of a more sophisticated type of planning and restructuring of the business. We put in place our pillar structure a few months ago, we are trying to have horizontal processes across the corporation, and we are seeing the early benefits from that.

So one example of a key area for us, that is yielding benefits now, but is going to probably provide a lot more benefits in the future based on the work we're doing now, is global supply chain. That is one massive part of our business, that is now being handled in a more global way and that's going to yield significant benefits in the future.

Similarly, for other end-to-end processes across the company, order to cash, corporate infrastructure, those are changes that require more time, but we have identified already where the opportunities lie and we are going after those, and all of those things combined will yield the incremental $120 million or so to get to the $200 million to $225 million target for the year.

So there is a lot of work to do, but I - one thing that was actually a very nice surprise for me when I came aboard a few months ago was to see how the structured and disciplined that process is, and so that gives me a lot of confidence that we are going to be able to, over time, and during the time period - during the period that we have indicated to achieve those savings.

There is things around portfolio shaping that we have already accomplished. But there are probably some other things that we can do there. So there is a healthy pipeline of opportunities and they have been identified and we are in the process of launching a lot of them.

Elizabeth Anderson

And as you think about your improvement as you pointed out, in the operating cash flow and the free cash flow going forward, does that change how you think about capital deployment going forward?

Jorge Gomez

I don't think so. I think in terms of how we deploy our capital, I think the general principles that I indicated in my prepared remarks will remain. I think the good news is, we should be able to, in the future, we should be able to generate more cash flow to reinvest more in the business and to deploy capital in a balanced way.

So I don't think generating more cash is going to substantially materially change how we think about capital allocation. I think the good news is, there will be - if we implement, if we execute on the projects that we have in mind from a capital efficiency perspective, there will be more, more and more cash available to reinvest in the business and to return to shareholders.

Operator

Our next question comes from the line of John Kreger from William Blair. Your question please.

Courtney Owens

This is Courtney Owens on for John this morning. So one more consumables question. We've seen from other industry participants that have reported this quarter a disparity between consumables performance on a regional basis and I think that you guys pointed to that too in your prepared remarks and - but we do recognize that I guess you guys had a benefit from the disruption in Europe last year, but I guess when you're thinking about kind of like the end-market dynamics, what would you say the different dynamics are that are driving the varying performance in each of the markets as it relates to consumables? Thanks.

Donald Casey

Thanks Courtney. I would tell you, you know, a lot of the consumable conversation invariably winds up boiling down to what's going on into the US retail market, we always want to step back, we do a tremendous business globally. And if you look at what we would consider our growth areas and we've highlighted the importance of the developing world for us, we're seeing good growth there.

I mean if you look at the rest of world growth rate on an internal basis was 10% this quarter, and some of that was prime, but some of that's the consumable side, so we tend to look at the right now Europe and the US are kind of 1% plus growers and the rest of the world is whether that's Latin America, whether that's Middle East, whether that's Asia Pac, is growing significantly faster than that.

So on an end -market basis, we continue to be comfortable that the consumable businesses, again, on a quarter-to-quarter basis, there might be some variation, but we continue to believe that's a 2 percenter over time on a global basis, 2% to 3% is kind of what we target that on when we think about our strategic planning horizon. That's how we think about the business.

Operator

Your next question comes from the line of Jon Block from Stifel. Your question please.

Trevor Brown

This is Trevor on for Jon. Thanks for the questions. I have first one on CAD/CAM. Can you talk about ultimate conversions of past upgrade cycles such as Blue and Omni and kind of comparatively, what are your initial thoughts about Omni to Prime so far?

Donald Casey

It's interesting. So obviously when we come out with a launch like this, we go back to Blue, we go back to Omni, and I would tell you, right now, there's two things that are different with Prime that were - makes us pretty optimistic. I mean, the first is, we went out the gate and we were really focusing on new users. How do we sell more people on share side, and really help them transform their practice and help their patients out?

And we - at this point, we feel - obviously Blue was a little bit earlier in the cycle, but we feel in terms of attracting new users, Prime has been a benefit to us versus what we might have seen in past launches, Part 1, Part 2. Where are we in the cycle? We did not do an upgrade as early on this cycle as we did in other cycles.

Some of that, and I realize memory sometimes get short, but one of the things we had actually done, we had worked hard to accelerate the Primescan launch from when it was originally planned. And as a result, we have been really pushing our supply chain team and Bensheim, and Dan Key, our Global Supply Chain leader has been really all over this.

We took a little bit of a risk accelerating the program, how many of these would we have? And the team has been able to over-deliver. So we did not do a upgrade as early as we had in other launch cycles, particularly in Omni, and right now, we've just done it in the US, which is different than how we've done that in other times.

So, so far Prime is outperforming what we saw with Omni as much as we can look back and see that eight years ago.

Trevor Brown

And then maybe on regulatory in the rest of the world, how are approvals looking for Primescan and what else needs to get done at this point?

Donald Casey

Primescan, we feel pretty good about it. We mentioned that in our prepared remarks, we are able to run it out into Korea, Japan, and basically right now, we are either approved or about to get approved in most major areas there, China is one that we still haven't gotten approval for, that's going to take us a little while.

There is a couple of isolated countries, but by the beginning of the, I would say, September time period, where we were - had approval in most, if you think about our top 20 markets, there is one or two exceptions, but we've been pretty much approved around the world. You know, now, stuff, Jon, when we launch CEREC 5.1 with OraCheck, the device is approved, sometimes the software might take a second or two longer so. But basically Primescan - the Primescan acquisition unit camera have now been approved in most places.

Operator

Our next question comes from the line of Steve Valiquette from Barclays. Your question please.

Jonathan Young

This is Jonathan Young on for Steve. Just going back to Primescan, I recall that there were some bottlenecks that you had in the manufacturing of Primescan. Is this essentially cleared at this point given the outperformance in the quarter? And I guess, in terms of pipeline that you've seen in the quarter thus far, are you seeing more coming from new users in the quarter or is it more related to the upgrade program? Thanks.

Donald Casey

Thanks, Jonathan. I'll take this one. Again, we've been very, very happy with demand for Primescan and the reaction we saw at DS World was quite frankly better than we thought. So what that means is, right now, we're selling - we are delivering every unit of Primescan that we can make, we might have outstripped our manufacturing capacity right now, but is all that means is, it's a week or two delay in getting the product. We do expect that to catch up sometime in the first quarter, but again, the reaction to Prime has been really, really gratifying.

And again, I can't thank the team in Bensheim and our global supply chain leaders enough because they're - they got us more product earlier than we thought, and in the third quarter, they over delivered. We're optimistic that they will catch up to complete demand by the first quarter, but it doesn't mean that we're missing opportunities. It just means dentists who are excited about this product may get it a little bit later than they thought.

Operator

Our next question comes from the line of Yi Chen from HC Wainwright. Your question please.

Unidentified Analyst

This is [indiscernible] on for Yi. Thank you for taking my questions. Just a simple question on Danaher spin-out Envista and I wanted to see if you have any comments about - have the market dynamics changed in any way for Dentsply Sirona and does that affect the company restructuring if at all?

Donald Casey

You know, Envista is out there, they've been around for a while. They were just a division of Danaher. The fact that they are public doesn't change their competitive profile. We think they're good competitors, and Amir and the team has done a great job, but they've been around. It's a fact of our competitive landscape and has been forever. So thanks.

Operator

Our next question comes from the line of Jason Rodgers from Great Lakes Review. Your question please.

Jason Rodgers

Yes, just looking over some of the details of the DS program, it looks like dentists who sign up will get a greater discount on consumables if they purchase before year-end as well as become eligible for rebates and other discounts over the next two years. Do you think sign-ups and purchases before year-end to get that higher discount will be significant enough to boost the consumable growth in the fourth quarter and potentially pull forward demand from the first and the second quarters of next year?

Donald Casey

First, thank you for the question. We've tried to be consistent saying consumables is going to be up and down, and over time, we're putting programs in place, the innovation and everything else to drive consistent growth.

The One DS program, we think it's going to have a positive impact on the fourth quarter, and to be honest, we think it's going to have a positive impact on the first and second quarter because it's not as if there is not incentives for them to keep buying, if you actually peel the One DS program, there is clearly a opportunity to get a discount based on their 2019 behavior - purchasing behavior. But there is also a pretty significant rebate that comes into 2020. So we were looking to create sustainable relationships with these dentists and not create a promotional spike.

Operator

Our next question comes from the line of Erin Wright from Credit Suisse. Your question, please.

Erin Wright

Great, thanks, and sorry, I had to hop on late, but can you give us an update on the broader DSO strategy and then also within the DSO strategy, kind of Primescan into DSOs and how that relationship is evolving kind of with the innovation pipeline that you have as well? Thanks.

Donald Casey

Thanks, Erin. Look, we think the DSOs are an important space for us, we're getting a very positive reaction. And if you think about DSOs and kind of groups, you've got kind of the really large national, obviously, we have strong relationships with some of them on total equipment and we are forever looking to expand that. We really believe that we are in sync with what the DSOs are doing. If you really break down what the biggest single cost of an Aspen, Heartland or Pacific is it's their dentists, how much time does - how productive are the dentists?

And if you look at stuff like Primescan, which works really quickly, I mean you can do a full arch in under a minute, and if you look at how the software we put with CEREC, the reaction we're getting from is pretty positive. Well, this saves time, I can get my dentist to do more procedures.

So we feel - if you look at what we're doing with like Surefil one , again, it's a four-step process versus an eight-step to 13-step process. So we feel that the DSOs are significant opportunity for us. We're spending a lot of time with them. We really look at that as a key customer group for us, and the reaction to Prime has been pretty good. We want the reaction to our Orthophos to be pretty good as well.

So again, we're - our DSO strategy has evolved in the last two years, I mean we now from a sales perspective, we have a dedicated DSO group where we're spending a lot of time there. So long term, we're optimistic that this is - it's going to be an area that we can continue growing and partnering with them to deliver better patient outcomes and better productivity for their own dentists.

Operator

Thank you. This does conclude the question-and-answer session of today's program. I'd like to hand the program back to Mr. John Sweeney for any further remarks.

John Sweeney

Thank you very much everybody for joining us today on our third quarter earnings call. We look forward to seeing many of you at the Greater New York Dental Show later in the quarter. Thank you very much and have a good day.

Operator

Thank you, ladies and gentlemen for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.