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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

Ronald N South *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Elizabeth Anderson *Evercore ISI - Analyst*

PRESENTATION

Elizabeth Anderson - *Evercore ISI - Analyst*

Good morning, everyone. Thanks for joining today. I'm Elizabeth Anderson, I'm Evercore's healthcare services dental analyst. I am very pleased to be joined by Ron South, SVP and CFO of Henry Schein in what's been my exciting Ron South week.

It was our second opportunity to chat this week. I think the company doesn't need too much of an introduction given this long operating history in this space. But how have things gone since Monday, Ron?

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

Since Monday, we're still plugging along, and we're trying to do our best to help the dental industry grow.

QUESTIONS AND ANSWERS

Elizabeth Anderson - *Evercore ISI - Analyst*

Nice. Perfect. So maybe I have more serious questions. We're coming through like what's been a really nice launch in terms of the conical implant in the US for you guys. Can you help us think about the size of that business today, sort of how you think about where that fits within the broader value implant portfolio that you guys have been building?

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

Certainly. So the Tapered Pro Conical product was an implant product that we launched several months ago. Within the implant industry, you really have different types of implants, some that will connect to bone, some that will connect to tissue.

And the uniqueness or I shouldn't say uniqueness, but the difference in this particular product versus other products that we have in the product portfolio is that this is a much deeper connection to bone, which is typically about 50% of the market, that's 50% of the implant market in which we were not participating.

And so it does give us a very important product for that part of the implant market. Implants can take -- you don't convert an oral surgeon overnight on the implants. It is a process to convert customers. But we are going through that process, and we're pleased with the progress so far.

Elizabeth Anderson - *Evercore ISI - Analyst*

Got it. And how do you think about the completeness of your value implant portfolio at this point? Are there other kinds of major areas you're looking to do, or do you feel like you have the full spectrum at this point?

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

What I would say, we're where we want to be with it, right? There's always other things you can add, but I think we are where we want to be. Specifically in the US, with the acquisition we did in 2023 of SIN in Brazil, they had a or have a value implant that already had FDA approval that could be sold in the US.

They had really just received that prior to our acquisition with them. And it gave us an opportunity then to add that to the BioHorizons product portfolio which in turn, really provided a broader choice of products. That specific product was one that our DSO customers were very interested in us getting because a lot of DSOs, the general practitioners who work in the DSOs -- there's more and more of them who have an interest in doing implants as well, as opposed to referring those procedures to an oral surgeon.

Essentially, if it is a complicated process, it may be something that they have to still refer out. But a single implant process is one that we can help them get the education, go through the education process, and then they are able to maintain that revenue base within their practice.

If they're going to go to a single implant straightforward procedure, they can do that with a value implant as opposed to the more premium implant that has a lot of backup service, and a lot of backup surgical planning that comes with it. So that has been a popular -- we believe that will be a popular product with our DSOs, and gives us greater growth opportunity there.

Elizabeth Anderson - *Evercore ISI - Analyst*

That makes sense. And what about the conical implant? Are you planning to expand that into Europe? How do we think about that?

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

We actually already had a similar product in Europe. So Camlog, our European implant subsidiary was selling a very similar product there. We just didn't have the -- we didn't have it in the US. We now have it in the US.

Elizabeth Anderson - *Evercore ISI - Analyst*

Okay. How do you think about the go to market efforts? I mean, obviously you guys have a very broad reach across a variety of different sales modalities. As we think about sort of growing the implant portfolio, does that require sort of any different go to market strategies in terms of specialized sales teams or other kinds of investments on that front?

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

Well, it is a specialized sales team. I mean, there is a value, a significant value add that you can provide to your customer in terms of kind of going back to the backup service that you can provide when you're selling an implant.

When you're selling an implant, you're not just selling the physical implant, you're selling an implant system to the surgeon. So, it is a very specialized service. I do think there's some things that we are looking at that could help us better leverage our US dental infrastructure that could benefit the operations of our implant businesses.

But at the end of the day, you still have to have that specialized sales force. You have to have those specialized KOLs with whom you're working to be sure that you are keeping up with the growing trends in that specific field of dentistry.

Elizabeth Anderson - *Evercore ISI - Analyst*

Got it. Okay. That's helpful. So maybe turning to your sort of core consumables business in dental. Have you started to see any changes in patient traffic as we've moved through the fourth quarter?

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

Well, what we've seen in October was that it was, I believe we said it was consistent with September. So the trends in the fourth quarter have remained somewhat consistent with what we saw in the third quarter. It was an interesting dynamic with, for example, with merchandise in North America where when you look at year over year third quarter merchandise volumes, and this is in the market, in the North American market, we did see a slight tick up in merchandise volumes, which I think was somewhat consistent perhaps with a slight tick up in patient traffic as well.

What we didn't see was revenue growth following that quite one to one, we saw a slight, relative flatness in revenue, and it's an indication of more and more customers, I believe who are moving more towards slightly lower cost, branded merchandise, or moving more towards some of the private label.

Elizabeth Anderson - *Evercore ISI - Analyst*

And that makes sense. When we think about the inflection in dental, is there sort of like a way that you think about sort of how either stable or improving consumer sentiment, and spending sort of flows through to the dental segment.

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

I would say yes, I think there's other factors as well. I mean, consumer sentiment would likely be most relevant to something such as implants. We were just talking about implants and implant procedures, at least in the US, tend to have a relatively high out of pocket cost to the to the patient.

Implant procedures can for the most part also be deferred. So, if there's say a lower kind of consumer confidence in what's happening economically, you can see a pullback in those procedures. If there's a change in that sentiment, we think that could be beneficial to the implant markets.

From a macro perspective, besides consumer sentiment, interest rates, lowering interest rates could have an impact. And I think a positive impact on the dental industry as well, both from the perspective of equipment buys, to the extent that practices are financing equipment buys, lower interest rates would obviously make that a slightly more favorable proposition for them.

But I think even more importantly, it's the build out of new offices. A lot of our DSO customers, some exclusively grow through their de novo practices, others do it through de novo practices and combinations of acquisitions.

We believe the lower interest rates and lowering that cost of capital could increase the de novo expansion which would be, obviously expands the supply of dentistry services which would be beneficial for us.

Elizabeth Anderson - *Evercore ISI - Analyst*

Yeah, no, that makes sense. Is there a particular sort of rate cut point that you think that flips, or you think it's just sort of a general shift towards that as it rates continue to?

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

Yeah, I mean, it's hard to say precisely how far down interest rates would have to come forward to do.

Elizabeth Anderson - *Evercore ISI - Analyst*

77 basis points?

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

But I do think that -- and a lot of this comes back to sentiment, what do people believe is going to happen, and people plan accordingly. But I think that interest rates have at least begun to trend down a little more. I think a lot of people expected the rates to be, perhaps be, moving down a little more quickly than they are.

So that could still be creating a little bit of caution in the market. But I do believe that as rates come down over the course of the next year, and I think a lot of people still believe that they will come down over the course of the next year that we could see perhaps a little more acceleration in de novo practices.

Elizabeth Anderson - *Evercore ISI - Analyst*

No, that makes sense. Maybe in terms of talking about the cyber-attack, we're thankfully now one year out and maybe after this quarter, I can stop talking about it for a while. You know, where are we on customer retention? Obviously, you work to consolidate sort of fixing things with your large customers first, and then sort of moved across the spectrum. Where are we in that process?

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

So our -- in terms of our larger dental customers, our national DSO customers, our group practices, and even our I would say, our private practices who are engaged with a field sales consultant who really identify as a Henry Schein customer.

All those customers were largely retained. It was a very small subsegment of customers that were more transactional, didn't have a rep, use our website, much in the way all of us here would use an Amazon website, or a Walmart website to go in and just buy something.

And those were the customers that we or that subsegment of the market where we probably suffered the most in terms of market share. Over the course of this year, we've been focusing on how do we bring back some of those customers? Those are typically relatively discerning customers. They're waiting for promotions. They want to get a coupon. They want to find a special discount.

So you can do some promotions. You got to balance the promotions accordingly, because you don't want to give away product. But we do think sequentially, we've seen our data show that we are incrementally gaining market share in general.

And specifically, we are getting some market share with those episodic customers as well. That pace of recovery has been slower than we originally expected, and that was one of the impetuses of bringing down our guidance in August.

Elizabeth Anderson - *Evercore ISI - Analyst*

No, that makes sense. Maybe talking about episodic customers. Can you talk to us a little bit about how you e-commerce platform launch has gone in the UK and Ireland, and sort of how -- what your learnings are from there vis a vis the US launch as we move into 2025.

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

Yeah. So the global e-commerce platform is something we're very excited about. It is a -- our existing website that our customers can use to order product largely functions as an ordering platform. And the e-commerce platform that we've developed is a much more comprehensive experience for the customer in terms of being able to see demos of equipment.

And it really has more of a feel of a B2C type of website versus a B2B. So we launched in the UK. We've been very pleased, and we've done that even within the UK, we did it in stages. So we can kind of learn along the way in terms of what changes could we make either to the website, or to educating our customers as to what to expect with the website.

So we're selling product in the UK. We're also selling product in Ireland through the e-commerce platform. We have some, and we will be introducing it in the US, I'd say at some point in mid to the back half of 2025. And we do think it can help us perhaps get some additional market share, perhaps get slightly better margins. These are all things that we think can ultimately assist the business.

Elizabeth Anderson - *Evercore ISI - Analyst*

And is it really focused on that episodic group of customers or is it?

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

No, I would say, we want our field sales consultants to be focused on assisting their customers in enhancing the profits of their practice, right? You know, we've often talked about and you probably have heard these statistics in the past, Elizabeth, around what percentage of a practices cost base are things that they buy from Henry Schein, right?

And it's typically 7%, 8% of their cost base in terms of the merchandise they're buying, and might be higher than that in a year they're buying a lot of equipment. But you know, the primary cost to a practice is the cost of their hygienist, their insurance, their occupancy. Those are really the primary cost.

You know, we really encourage our field sales consultants to not -- I hate that statistic of 7% or 8% of their cost base, because we encourage our field sales consultants to not view themselves as part of our customers' cost base, but they really should be viewed as part of our customers profit, right?

What do they do to help them drive profit? Helping them order gloves and cotton balls and things like that doesn't really drive a lot of value. What does, if you can direct your customers to that e-commerce platform, where it's going to be a much easier and better customer experience to place their order.

And then the field sales consultant can get more to what are the things that are bothering them? What are the pain points in the practice that we can help them with? If you sit down and talk to a dentist and ask them, what are the two or three things that are really bothering you right now?

It's not going to be the cost of their gloves. It's going to be, well, I'd like to get reimbursed faster from my insurance payer. I'd like to be able to increase my reimbursement for my insurance payer. I'd like to be able to have better retention of my staff. Those are all services that we provide.

And if you can get lost in the, can I get you cotton balls for $0.05 cheaper versus how do I make you run a more productive practice? And that's where we really want our field sales consultants are really focusing on that more and more, and it makes it easier once the e-commerce platform is up. And we can steer them to that, take care of their order in a very seamless way, and then help them manage a more profitable practice.

Elizabeth Anderson - *Evercore ISI - Analyst*

Got it. I know it's early days in that. Can you point to, sort of tangible financial benefits from doing that, whether you get sort of a couple of percentage points of increased share, or the profitability that you were highlighting before.

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

Yeah, it's hard to pin down precise numbers on that. But I can say that a significant amount of our orders now come through either the website or through EDI. So, they would probably combine to be about 75% of the orders we get now.

When you look at those orders versus the remaining 25% which come through either the tele sales network or are physically placed by the rep, they have -- they're on average, they are larger orders, and on average they are orders at better margins.

And so we believe as we can push more and more of the of the business into the e-commerce platform, it can help with the average size of orders that can help with the margins as well.

Elizabeth Anderson - *Evercore ISI - Analyst*

Got it. And the US launch is to be mid '25?

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

We're saying mid '25, perhaps a little bit towards the second half of '25.

Elizabeth Anderson - *Evercore ISI - Analyst*

Okay. That makes sense. Maybe one hot button issue has been the tariff situation. How do we think -- did I understand that the proposals are tentative, and not fully in place. So there's a lot of details that we don't quite understand yet.

But how do we think about Henry Schein's China and Mexico exposure and Canada as well? And can you talk about sort of how you think about potential levers you can pull depending on what the policy ultimately ends up at.

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

Certainly. So I'll start with China. The most important product category that we have that is sourced out of China, or has a source out of China would be examination gloves, right? About 35% to 40% of the gloves we sell historically have been manufactured in China.

Over the course of this year we have shifted some of that sourcing to existing suppliers that we also have in Malaysia and Vietnam and elsewhere in Southeast Asia. We're still retaining a relationship with those Chinese suppliers. We think that's very important.

And we sell a lot of gloves in Europe, too. So we can still source in Europe from China without having to deal with the tariffs, right? Our suppliers in Malaysia and Vietnam are quite pleased to take on the additional volumes from us. These are existing suppliers that we know we're getting high quality product from and we don't have to do any diligence. So it's a relatively seamless effort to get to this point.

In terms of Canada and Mexico, Canada is really the world's supplier of dental anesthetics, almost all dental anesthetics are manufactured, whether it be the generic or a branded anesthetic in Canada. So to the extent that we end up with tariffs on Canada, and I think that remains to be seen, I think that's a big question mark, everyone would be affected the same way, who's importing anesthetics from Canada.

And our exposure to Mexico is pretty close to zero, if not zero. Our own manufacturing that we do, we don't do any manufacturing in China, Canada, or Mexico as well.

Elizabeth Anderson - *Evercore ISI - Analyst*

Got it. And we think sort of shifting some of the points that you made before. Is that something you can do sort of in relatively short order, sort of like weeks or months or is that years? Like, I mean, not to pin you down to like a precise timeline, but like how do we think about it?

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

It's been in process.

Elizabeth Anderson - *Evercore ISI - Analyst*

It's been in process.

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

It's been in process over the course. Our supply team has kind of been working through this. They did have to accelerate a little bit. I think some of the tariffs, the timing of some of the tariffs got moved up but they -- it helped having that existing network of suppliers in Malaysia and Vietnam that we are able to shift to.

Elizabeth Anderson - *Evercore ISI - Analyst*

Got it. Maybe speaking about gloves and PPE a little bit more. And that's been one of the sort of surprises that came through in the mid-year sort of the still change, I'm sure you had hoped to never talk about that ever again, a bit changing PPE pricing, but still seems to be with us.

Can you tell us what you see as sort of driving the PPE costs as we move through 2024? And sort of when do you expect those ASPs to stabilize?

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

Certainly. So our PPE revenues have stabilized somewhat about 75% to 80% of our PPE revenues are gloves, so I'll kind of focus on gloves. Glove revenues spiked in the early days of the pandemic because costs went up significantly, so prices followed.

Costs began coming down, prices followed that. What has happened, I believe, over the last year or so, if not sooner, or if not a little more than that with gloves is that there's still a fairly abundant supply of glove in the channels.

And as a result, there's still a lot of companies that are willing to discount gloves, because gloves frequently lead the order. When a practice needs gloves, they'll say, and why you're buying the gloves, also get the cotton balls and these other things that we need as well.

So if you have an attractive price on gloves, you're going to draw the order, and you have a chance to sell all the merchandise. If people look at your glove pricing and you know what I might go and see if I can find a cheaper price elsewhere it does, you're at risk of losing the order at that point, right?

So people are willing to be fairly competitive on gloves. We just talked about tariffs. It's what I don't know and what I think everyone is trying to better understand, better predict, what would the effect of tariffs be on glove pricing going forward? What will other suppliers do who have gloves that are not sourced out of China, do they see it as an opportunity to begin increasing prices.

Could we see at least not just stabilization in glove prices, perhaps increases in glove prices? I don't know the answer to that. But it is going to be an interesting dynamic on gloves as we get into 2025.

Elizabeth Anderson - *Evercore ISI - Analyst*

No, that makes sense. And maybe that's a good segue into the medical business, which I feel like is such a large part of your business, and we may be on the investor side, spend much less time on it than probably we should.

How do you sort of think about the volume growth in that? I know you have a variety of businesses to maybe it's worthwhile to sort of parse out some of the differentiators between some of the ASCs and the home, and the primary care business.

But I guess there's been a notable contrast to how we've heard some other players like managed care and some players there talk about utilization and then some of your utilization commentary, which has been echoed by some of your competitors as well. So if you could sort of help us think through those dynamics, and particularly with regards to the fourth quarter, that would be helpful.

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

Yeah The medical business, first of all, our medical business has grown to this $4 billion a year business from something that was less than $3 billion, not more than, say, five, six years ago. So it's been a very good growth engine for us.

Obviously, it benefited in the early days of the pandemic, not just from PPE, but also when we started selling COVID test kits as well. We sold, I think, believe it was '21 or '22, I mean drawn a blank on the top, we sold $500 million in COVID test kits.

So we did benefit from that period of time. But we within medical, we've been able to diversify somewhat because you do get within that core medical, you can get some volatility associated with whether it be utilization or otherwise, we have certain product categories that are going to be driven by what I'll call general illness in society.

One of our most important product categories are point of care diagnostic kits, not just COVID, but flu, strep, RSV, multiple others, right? If you have a light flu season, if you have a slightly lighter respiratory illness season, fewer people are going to the doctor to be tested.

So we have seen a bit of a pullback in point of care diagnostic kits because there has been -- I think, right now, at least it has been a lighter flu season than we've experienced historically.

But we've been able to diversify our medical business to include, for example, a company called North American Rescue that we invested in about six years ago, who specializes in sales to government. They create products, and have products, that are largely used by the Department of Defense. And we've been able to expand our product portfolio with them, and they've had some relatively good years over the last couple of years.

And then most importantly, we've expanded into home solutions. About three years ago, we acquired a business called Prism. Prism was a really almost like a test case for us where we were able to better understand some of the nuances of working in the home solutions area.

Prism was primarily an east coast driven business that specializes in wound care products. We have since been able to acquire Shield Healthcare that was in late 2023. Shield had a larger west coast presence and also had ostomy products and continence products and others that we have been able to now broaden that product portfolio, broaden our home solutions business geographically.

We've brought it all under a single holdco with common ownership. So the partners are all working together. And then, most recently, we were able to buy Acentus, which specializes in continuous glucose monitors for people who are receiving home care.

We see that as a product category that has really accelerated growth opportunity, and it helps us broaden both our product portfolio and our geographic reach and home solutions. Our home solutions business is growing faster than core medical, and it gets better margins than our core medical, so it's accretive to both. And so that's really going to be a specific focus of ours going forward.

Elizabeth Anderson - *Evercore ISI - Analyst*

Got it. And then just maybe that was helpful context about our business. If we just are specifically talking about the current environment, how would you sort of characterize that versus the third quarter? Does it sort of continue to be on a similar trajectory, is it fair characterization?

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

Yeah, I mean, I think everybody kind of sees the same market data we see out there and I would say we're continuing on a relatively consistent trajectory. Yes.

Elizabeth Anderson - *Evercore ISI - Analyst*

Got it. Okay. And then I know this has been a big question of late, so sorry to repeat it, I know we talked about this on Monday, but like how do we think about the integration between your medical and dental distribution businesses? What's similar, what's combined, what's separate?

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

So our dental and medical businesses largely operate as a singular business with the one exception of the actual sales forces. You do have a dedicated sales force who are selling to dentists and a dedicated sales force that are selling to physicians and ASCs.

A lot of the products they sell are very common. Examination gloves that we sell to a dentist can be the same examination gloves that we sell to a physician, for example. About 25% to 30% of the SKUs are common across the two businesses.

Our distribution network consists of essentially six distribution centers, five significant distribution centers and one smaller one, all of whom provide services and products from where we ship to our dental customers and our medical customers.

Our management team, you've met Brad Connett, our President of North America distribution. He is responsible for both US medical and US dental. So everything from procurement to customer support to sales support with the exception of the sales team is really under one umbrella.

What's interesting is some of the trends we're seeing in the market now, some of our DSO customers have begun to expand into medical clinics. They would and they want to be able to continue to buy from us. They don't want to have to go to another supplier.

One of the faster growing areas that we're seeing in our customer base, our community health centers. Community health centers will typically have both a medical clinic and a dental clinic available. We can serve that community health center as a single supplier for both of those.

And then you're beginning to see more and more of, kind of urgent care clinics, that are starting to take on a little more of a dental field. So that wall between dental care and medical care, and we've always said that dental care is essential, and good oral care is essential to get overall care is getting blurrier and blurrier.

And that's been part of the reason why we've been able to kind of approach the market as one. And we think as that line gets even more blurry, we're well positioned to be kind of that singular supplier for those who are operating in both areas.

Elizabeth Anderson - *Evercore ISI - Analyst*

Yeah. I was just like long term you can go one day and do like all of your appointments. Your checkup, your medical checkup, you did cleaning, and whatever else. Like it just it makes sense from a timing perspective.

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

It seems like it should be fundamental, right?

Elizabeth Anderson - *Evercore ISI - Analyst*

But the consumer focused part of health care has always been a little bit of a trickier thing.

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

Yeah.

Elizabeth Anderson - *Evercore ISI - Analyst*

Okay. And then maybe one thing we've talked about less is your technology business as well, right? Can you talk about what benefits does the distribution business get from also owning those technology assets?

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

Yeah, absolutely. I mean, we have really focused on increasing the coordination between our US dental sales team and our Henry Schein One sales team. We had customers out there who use Dentrix, but don't buy their merchandise from us. We have others who buy their merchandising equipment from us, but don't use Dentrix, our practice management system.

So we have begun providing some incentives to our US dental team for they're not going to go out and actually sell the system itself, but they're going to get the reference. They're going to be able to refer to our Henry Schein One team. And we're beginning to see some benefits from that.

Equally, with our DSO customers. Our DSO customers want to have, besides being able to buy their merchandising equipment from us and be able to buy their dental specialty products from us, they like having all their practices on a common platform and that common technology platform. So we coordinate our national approach to the DSOs across our technology business into our US dental business.

It's a singular team that works with them to assure that they have common systems, and a common approach with Henry Schein. When we meet with our larger customers, our larger national DSO customers, we have regular kind of strategic meetings with them that includes our Chief Innovation Officer.

Henry Schein One has representatives in that meeting where we can sit down with them and say, here are the trends in dentistry, here are some of the things that we're seeing that are making practices more efficient, let us help you invest in some of these areas.

They love that. It's just a brainstorming session that we have with them. Henry Schein One is there with our US dental team, taking them through what are some of the things that are happening on the technology side as well.

Elizabeth Anderson - *Evercore ISI - Analyst*

Okay. That makes sense. That's helpful. Thank you. If we think about your cost restructuring plan that you guys have announced, where are we with that as we sort of finish up 2024?

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

Certainly. So we are targeting on an annualized basis, we're targeting $75 million to $100 million in cost savings. During the third quarter, we had already taken actions that we estimate it would provide in excess of $50 million of annual cost savings going into '25.

And we are continuing in the fourth quarter to take on additional initiatives that we think will get us pretty close to that $75 million to $100 million over the course of '25. So the goal right now is by the end of 2025, we will have in place all these initiatives that will lower that cost base on an annualized basis to $75 million to $100 million. Obviously, if we can find additional cost savings along the way, additional opportunities, we'll incorporate those into the plan, and we'll do our best to try to exceed that range if we can.

Elizabeth Anderson - *Evercore ISI - Analyst*

Got it. And where are -- obviously this isn't your first foray into making things more efficient in the organization and cutting costs, like where are the sort of current opportunities that you're seeing?

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

I'd say it's really in a couple of different areas. There are several areas that we're targeting. I'll start with the fact that our revenues have not met expectations in the distribution business, we wanted to right size that business. We needed to right size that cost base to be more consistent with what the revenue base was.

So unfortunately, there were some immediate cuts that we did on the distribution side, that's creating a lot of those cost savings. In addition, in some other areas, it's a little more strategic. I'll use our endodontics business as an example.

In our endodontic business, we have about four different manufacturing sites. But in two of those sites, were owned by subsidiaries in which we had an 80% ownership. So you had a 20% minority partner on one, and a 20% minority partner in another, which made it very difficult to kind of collaborate on certain things because everybody wants to share the profits on it, right?

We've been able to buy out those minority partners to get to 100% ownership, which is now allowing us to really view the endodontic business, not as a portfolio of endodontic businesses, but as a singular business. And we think -- we know that is going to provide us with some good synergies and some opportunities to operate more efficiently there.

Then other things like such as an orthodontics, we haven't been successful in achieving the scale that we've been looking for in orthodontics. And it got to the point that it really didn't justify having some of the infrastructure we had in place supporting that business.

When we had other infrastructure within Henry Schein that could equally support them. So we have really cut back on some of the administrative costs associated with the orthodontics business. We've moved the manufacturing where we are moving the manufacturing to a plant in Savannah, Georgia, that is currently doing endodontics manufacturing, we can incorporate our orthodontics manufacturing there.

And we're going to start distributing the product out of our US dental distribution system as opposed to it having its own distribution. And these are all things that will give us a little more efficiency with the orthodontics business, and then we'll have to review the need to invest in it once we achieve the scale we'd like to achieve in the long term.

Elizabeth Anderson - *Evercore ISI - Analyst*

Got it. And how do you think in terms of your sort of three core businesses? What's the right margin profile for each of these businesses as you see them right now?

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

When you say margin profile, I mean which one?

Elizabeth Anderson - *Evercore ISI - Analyst*

For like dental versus me for medical, like if we're thinking about like going out a year or two.

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

Well, I think it's the gross margins in dental have tended to be slightly higher than those in medical. It's getting increasingly difficult to comment on the operating margins of them separately because of this common cost space we have across them, right?

So a lot of it comes down to how are you allocating those costs. But so we really are looking at the distribution margins. we do believe we need to improve some of those distribution margins, hence, some of the cost cuts that we've made.

A lot of distribution cost is a fixed cost. You think about the cost of the distribution center, the equipment inside the distribution center, you get some variable costs around the pick and pack on the commissions to the sales force, but it's largely a fixed base.

We can improve margins in distribution, primarily through increasing revenues. It seems fundamental, but that's really where we realize we have to improve margins is by continuing to gain market share and continuing to increase revenues.

Elizabeth Anderson - *Evercore ISI - Analyst*

That makes sense. Maybe just talking about 2025 from a high level. You know, obviously you have somebody's air comp in the first half of the year, but the street is looking, I think, at sort of high single digit EPS growth next year.

Where some considerations we should be mindful of that might sort of prevent it from accelerating to low double digits? And what are some potentially some new sources of upside that could push that number higher?

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

Certainly. So we'll be providing 2025 guidance in February when we release our fourth quarter 2024 results. That guidance will reflect a number of variables that we're continuing to look at right now, which includes what's the ongoing run rate that we're getting in distribution?

Are we continuing to get some of some of those sequential market share gains, and market share recovery that we've seen over the course of '24? What kind of momentum does that give us into '25? Where are we in terms of cost savings initiatives and our restructuring plan? And what's our level of confidence in being able to execute on some additional cost savings in '25?

Then you have to look at some of the new products. You mentioned the Taper Pro Conical earlier. What kind of momentum are we expecting in '25, how can we continue to grow that product. Even in Henry Schein One, they introduced a couple of products in the fourth quarter that we're very bullish on.

One called Eligibility Pro, another one called Reserve with Google, that is being received very favorably by our customers. So what happens when you get a full year of revenue from them. These are all things that factors that we have to contemplate when considering our '25 guidance, and those will be reflected accordingly when we do.

Elizabeth Anderson - *Evercore ISI - Analyst*

Got it. Maybe one area we haven't touched upon yet is, is on the M&A side. I think in your prior comment about sort of margin opportunities, you talked about consolidating some stakes in certain things. And that is that like a place you have increasing interest in terms of your M&A strategy going forward, or is it just that those were sort of unique opportunities that happened to present themselves at an attractive time?

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

Well, we did in 2023, we did an excess of $1 billion in acquisitions, which was probably on average, about triple what we would normally do. So there's a lot there to kind of absorb, incorporate, and that's where the focus has been.

And we did do the orthopedics transaction in the early part of this year. And then the rest of our acquisition activity in '24 has been primarily in buying out minority partners. So we do have that opportunity to find more synergies and some operational efficiencies within like I gave the endodontic business as an example. There's been a few others as well.

So from an acquisition perspective, we are still interested in finding the right opportunities that we believe gives us accretive growth on margins, gives us some good opportunity to make what I always say the rest of the business better.

I'm not interested in doing an acquisition of a company that's going to be just be an adjacent, and not really have a lot of interaction with the rest of the business, that's like investing in a stock, and I don't think that's the best use of our capital. So we do look at these acquisitions.

I'll use SIN as an example. The fact that SIN wasn't just all that's invested in a Brazilian implant manufacturer, it was a Brazilian implant manufacturer that also had an FDA approved value implant that we could sell in the US, it made BioHorizons, a better company. So that's the kind of acquisition we want to do, and we'll continue to look for those types of opportunities.

Elizabeth Anderson - *Evercore ISI - Analyst*

Do you think those opportunities are sort of similarly plentiful going? I know obviously you talked about your hurdles, and how you think about the value creation opportunities there, but have you seen the availability of assets still remain high in the market or not too much?

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

You know, you always hear about certain assets becoming available. I will say most of our acquisitions are done largely through relationships. Most of our acquisitions are of smaller private companies, often with an owner operator who frequently may view Henry Schein as part of their exit strategy.

It's not unusual for one of these owner operators to approach us at a dental show or otherwise and say, in five years, I might be interested in selling my business, is there something you'd be interested in. And we will cultivate that relationship.

And in five years, if they'll kind of let us know yet, I think I'm ready to go and we know them, and we'll sit down and we negotiate a deal. If in fact, and it gives us a lot of time to kind of understand what's there and what do we want to do with it, right?

Rarely do we do a transaction where a bank brings us a book and says to you guys want to do this deal. We have done deals like that. But most of the time, it's a smaller private owner, who we kind of see as something that is complementary to our existing product portfolio, perhaps allows us to expand into another geographic area. And that's usually the way we are approaching our M&A.

Elizabeth Anderson - *Evercore ISI - Analyst*

Got it. That's helpful. Maybe in the last couple of minutes that we have, it's obviously there are many facets to Henry Schein. It's a fairly complex business. What do you think it is about, there is about the business that's most misunderstood by investors at this point?

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

I would say frequently we get lumped into sub segments of dentistry that are underperforming that perhaps for others in the industry is a significant part of their business. But for us, it is less significant because we have such a broad portfolio.

So you hear about a company that's struggling with implants and as a result, their share price may come down, and we'll come down with them. Implant is an important part of our business. But we've got, we also have a medical business.

We have a core dental business, we have a technology business. We don't only operate in the US. We're global. So I think the value proposition of that breadth of products and services that we offer, and that no one else can really offer.

People will ask me about the competition. I'm like, well, we have to narrow that down. Are you talking about dental distribution? Are you talking about high tech equipment? Are you talking about implants? Are you talking about endodontics? Are you talking about technology? Are you talking about medical?

You have to assign different competitors across the board on that. I think sometimes we get moved into what I'll call certain neighborhoods that we don't belong in terms of where people are trying to benchmark us in.

But you know, we're going to keep doing what we're doing, and we're trying to get the message out there. And we believe that we still believe we're a good investment for people who are looking to get into this space, and we'll do our best to provide a great return for them.

Elizabeth Anderson - *Evercore ISI - Analyst*

Makes sense. Well, I think we are almost out of time, so we'll leave it there. Thank you Ron.

Ronald N South - *Henry Schein Inc - Senior Vice President and Chief Financial Officer*

Very good. Thank you, Elizabeth.
