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OVERVIEW:

Company Summary

REFINITIV

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Henry Schein's third-quarter 2024 earnings conference call. (Operator Instructions). And as a reminder, this call is being recorded.

I would now like to introduce your host for today's call, Graham Stanley, Henry Schein's Vice President of Investor Relations and Strategic Financial Project Officer. Thank you. Please go ahead, Graham.

Graham Stanley - *Henry Schein Inc - Vice President, Investor Relations and Strategic Financial Project Officer*

Thank you, operator, and thanks to each of you for joining us to discuss Henry Schein's financial results for the third quarter of 2024. With me on today's call are Stanley Bergman, Chairman of the Board and Chief Executive Officer of Henry Schein; and Ron South, Senior Vice President and Chief Financial Officer.

Before we begin, I'd like to state that certain comments made during this call will include information that is forward-looking. Risks and uncertainties involved in the company's business may affect the matters referred to in forward-looking statements, and the company's performance may materially differ from those expressed in or indicated by such statements. These forward-looking statements are qualified in their entirety by the cautionary statements contained in Henry Schein's filings with the Securities and Exchange Commission and included in the risk factors section of those filings.

In addition, all comments about the markets we serve, including end market growth rates and market share, are based upon the company's internal analysis and estimates.

Today's remarks will include both GAAP and non-GAAP financial results. We believe the non-GAAP financial measures provide investors with useful supplemental information about the financial performance of our business, enable the comparison of financial results between periods where certain items may vary independently of business performance and allow for greater transparency with regard to key metrics used by management in operating our business.

These non-GAAP financial measures are presented solely for informational and comparative purposes and should not be regarded as a replacement for corresponding GAAP measures. Reconciliations between GAAP and non-GAAP measures are included in Exhibit B of today's press release and can be found in the Financials and Filings section of our Investor Relations website under the Supplemental Information heading and in our quarterly earnings presentation also posted on our Investor Relations website.

The content of this conference call contains time-sensitive information that is accurate only as of the date of the live broadcast, November 5, 2024. Henry Schein undertakes no obligation to revise or update any forward-looking statements to reflect events or circumstances after the date of this call. Lastly, during today's Q&A session, please limit yourself to a single question and a follow-up.

And with that, I'll turn the call over to Stanley Bergman.

Stanley Bergman - *Henry Schein Inc - Chairman of the Board, Chief Executive Officer, Director*

Thank you, Graham. Good morning, everyone, and thank you for joining us. Our businesses performed well during the third quarter, driven by the successful implementation of our BOLD+1 Strategic Plan that is resulting in growth and efficiency throughout Henry Schein and a strong contribution from high-growth, high-margin products and services. We believe we continue to steadily gain market share in our dental and medical distribution businesses following last year's cyber incident.

Our dental equipment business is showing ongoing stability in North America and increased investment by customers across Europe, Australia and New Zealand. Implant and endodontic products had good growth in Europe and Brazil as well as in North America following the successful launch of the BioHorizons' tapered pro conical implant in the United States.

We're reporting another quarter exceeding our target of 40% of operating income generated by our high-growth, high-margin businesses, and we expect to exceed the target, this particular target, of the 40% target for fiscal 2024.

Acquisitions made during 2022 to 2024, during that strategic planning cycle, along with product launches are delivering strong financial results and our restructuring plan is on target. We also continue to return capital to shareholders through our share repurchase program. We exceeded our financial expectations for the quarter.

So today, we are increasing our non-GAAP EPS guidance range to $4.74 to $4.82. We also launched our global e-commerce platform in the UK and Ireland, that's the GEP program, and expect to launch next year in the United States. So far, we have received rather positive feedback from our customers that have moved onto the new system.

Now let me turn to a review of our business units and start with the dental distribution business. Overall, third quarter results for our dental distribution businesses generally reflect continued stable patient traffic globally. We believe the North American market for dental merchandise sales was consistent with last year, with unit sales increasing low single digits, offset by PPE price declines and a shift in sales to lower cost brands and owned brand products.

We also believe that our North American dental merchandise market share grew sequentially last quarter compared to the second quarter, reflecting a similar trend from the beginning of the year as we continue to recover from last year's cyber incident.

Our third quarter sales increased internationally in the dental merchandise arena and reflects solid growth in Germany, Austria, France, Brazil, Australia and New Zealand.

So now let's turn to the equipment side. North American dental equipment sales were consistent with the prior year, and we believe we continue to outperform the overall market. Sales of traditional equipment grew slightly, while digital equipment sales decreased.

Parts and services sales continued to grow strongly. We believe our North American digital equipment sales were impacted in part by the timing of DS World. It was a successful show for us but, because it took place in the last week of September, sales from the show will mostly be recognized in the fourth quarter this year.

On the international equipment side, sales growth was quite good in parts of Europe, Australia and New Zealand, and that was across all categories.

Let's turn to the dental specialties. Our dental implant and biomaterial sales as well as our endodontic sales grew mid-single digits for the quarter, with continued above-market growth in the United States and Europe. US sales were fueled by the launch of BioHorizons' tapered pro conical implant driving mid-single digit sales growth in the third quarter against the backdrop of a North American market that is trending flat to slightly negative.

Additionally, in the US, we launched the SmartShape Healers, an abutment product line, at the end of the quarter in our implant business, which we expect to further attract new customers and drive implant sales. The product is being well received specifically by non-BioHorizons' customers who feel we've got something that is of great interest to them. We are confident practitioners will value the product's benefits, including less share time, enhanced patient comfort -- and improved clinical efficiency.

Turning to our orthodontic business. We are in the midst of restructuring this business as well as transitioning to the Smilers brand clear aligner in the United States and in the European markets. This resulted in lower orthodontic sales for the quarter compared to the prior year.

So now let's turn to the technology and value-added services part of the business. During the quarter, sales of our practice management software and revenue cycle management products posted mid-single-digit growth. This was driven by growth in the customer base of our Dentrix Ascend, and Dentally cloud-based solutions, which was up more than 20% year-over-year, with now approximately 8,600 installations worldwide at the quarter end.

Now it's important to understand, our results are impacted by customers moving from on-prem to SaaS-based solutions. Revenue is recognized in a different way in a SaaS-based model versus an on-prem sales model.

In addition, we recently introduced Reserve with Google, Eligibility Essentials and Eligibility Pro, each of which helps our customers grow their businesses and are well received. The number of claims processed by revenue cycle management e-claims business also increased by mid-single-digit percentages compared to last year.

In conclusion, the dental the -- our dental business is an important proxy -- is an important priority for our BOLD+1 growth strategy. And it's in this area that the L in the BOLD is important for leveraging our strong customer relationships across our product portfolio. We are providing integrated solutions that strengthen customer relations driving software, driving distribution and driving specialty sales, especially with our large customer segment.

For example, we had a number of dental distribution DSO customers switch their implants to BioHorizons and their technology to Dentrix Ascend and Jarvis Analytics. We have also had multiple successes with customers that have switched to Henry Schein for their merchandise and equipment purchases as a result of our differentiated offering and excellent value-added services provided by BioHorizons and Henry Schein One. Each of these successes has resulted in the coordination, in our go-to-market strategy and accordingly incremental sales.

Let me conclude my remarks with a review of our Medical group. During the third quarter, we believe we continue to increase market share sequentially compared to the second quarter, again, reflecting a similar trend from the beginning of the year as we continue to recover from last year's cyber incident.

Our sales reflected less demand for respiratory diagnostic products and flu and COVID vaccines this quarter, and therefore, along with related medical products. Sales were also impacted by the ongoing migration to generic alternatives for certain branded injectable pharmaceuticals. We continue to have good growth in our Home Solutions business.

So let me now turn the call over to Ron to review our quarter three financial results and our '24 guidance. Ron, please?

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

Thank you, Stanley, and good morning, everyone. Turning to our third quarter sales results. I will provide details on total sales growth as well as LCI sales growth, which is internally generated sales in local currencies compared with the prior year and excludes acquisitions.

Global sales were $3.2 billion, with sales growth of 0.4% compared with the third quarter of '23. This reflects 3.2% growth from acquisitions and a 0.2% decrease from foreign currency exchange rates. LCI sales for the quarter decreased 2.6% for the quarter, which includes a 0.4% decrease from lower PPE sales. As Stan noted, our underlying sales for the quarter reflect continued improving sales trends in our distribution businesses.

Our GAAP operating margin for the third quarter of 2024 was 4.94%, a 140 basis points decline compared with the prior year GAAP operating margin. On a non-GAAP basis, operating margin for the third quarter was 7.64%, a 45 basis points decline compared with the prior year non-GAAP operating margin.

We had good operating income growth in our dental specialties and technology and value-added services businesses, offset by a decrease in our distribution businesses resulting from lower sales following last year's cyber incident.

Third quarter 2024 GAAP net income was $99 million or $0.78 per diluted share. This compares with prior year GAAP net income of $137 million or $1.05 per diluted share. Our third quarter 2024 non-GAAP net income was $155 million or $1.22 per diluted share. This compares with prior year non-GAAP net income of $173 million or $1.32 per diluted share.

Our third quarter GAAP and non-GAAP results include a remeasurement gain resulting from the purchase of a controlling interest of a previously held noncontrolling equity investment. This business has performed well since we made our initial investment. And, as a result of our decision to take majority ownership, we recognize a remeasurement gain of $19 million pretax or $0.11 per diluted share in the quarter.

This is similar to a remeasurement gain of $18 million pretax or $0.10 per diluted share that we recorded in the second quarter of 2023. We regularly make non-controlling investments in companies with high-growth potential as part of our strategic plan. Leveraging our expertise, we have helped these businesses grow and become more profitable.

The foreign currency exchange impact on our third quarter diluted EPS was unfavorable by approximately $0.01 versus the prior year. Adjusted EBITDA for the third quarter of 2024 was $268 million compared to the third quarter 2023 adjusted EBITDA of $278 million.

Turning to our third quarter sales results. Global dental sales were $1.9 billion with sales decreasing 1.6%, LCI sales decreased 1.6% or 1.0% when excluding PPE sales. Global dental merchandise LCI sales decreased 2.5% versus the prior year with an LCI decline in North America of 4.9% and international LCI sales growth of 0.9%.

Note that when excluding PPE products, global dental merchandise LCI sales decreased 1.9%, North America merchandise LCI sales decreased 4.0% and international merchandise LCI sales growth was 1.0%.

We believe the overall dental market continues to be generally flat with a shift in sales to lower cost products and lower PPE pricing. We also believe we had a sequential improvement in market share in the third quarter compared to the second quarter. Our global dental equipment LCI sales increased 1.8%, with flat sales in North America and 5.6% growth internationally. We expect modest overall equipment sales growth for the year in both North America and internationally.

Dental specialty product sales were approximately $258 million and grew slightly compared to the prior year. As Stan mentioned earlier, this was driven by solid dental implant biomaterials and endodontic sales globally, offset by sales weakness in our orthodontic business, resulting from restructuring of the business and the transitioning of our clear aligner business from Reveal to Smilers, a product developed by Biotech Dental, which we acquired last year.

Note that our dental specialty acquisitions that we completed last year have now all annualized as of this quarter. So our total sales growth is equal to internal sales growth. Global technology and value-added services sales during the third quarter were $221 million, with total sales growth of 5.1%. The LCI sales decline of 1.1% included a 3.1% decline in North America and 13.4% growth internationally.

Our value-added services revenue was bolstered by the LPS acquisition. This is a leading transaction advisory services business that we purchased in August of 2023. The timing of revenues recorded by LPS distorted internal sales growth numbers during the quarter, and we believe that total sales growth of 5.1% for the Technology and Value-Added Services segment is most reflective of the growth of the business.

For the third quarter, specialty products, technology and value-added services businesses contributed over 40% of total non-GAAP operating income. Global medical sales during the third quarter were $1.1 billion, with sales growth of 2.9% and a decrease in LCI sales of 4.8%. Excluding sales of PPE products, LCI sales decreased 4.6%.

As Stan noted, our sales reflected less demand for respiratory diagnostic products and flu and COVID vaccines, along with related products. Sales were also impacted by the ongoing migration to generic alternatives for certain branded pharmaceuticals. Our Home Solutions business had strong growth, which was driven by our strategic acquisitions.

Restructuring expenses in the third quarter were $48 million or $0.26 per diluted share. This includes $12 million incurred as part of the plan announced in the third quarter of 2022, which was completed on July 31, 2024, and $36 million incurred as part of the 2024-2025 restructuring initiative announced last quarter. These expenses mainly relate to severance benefits and costs related to exiting certain facilities.

Actions approved in the third quarter under the new initiative are estimated to provide over $50 million in annual run rate savings, and we believe this indicates strong progress towards our goal of $75 million to $100 million in annual run rate savings by the end of 2025.

Our third quarter GAAP results include $10 million in pretax proceeds as part of our cyber insurance claim, which is excluded from our non-GAAP results. At the end of the quarter, we had already collected $20 million and anticipate collecting most of our $60 million claim by the end of this year.

Regarding share repurchases, we repurchased approximately 2 million shares of common stock in the open market during the third quarter at an average price of $69.09 per share for a total of $135 million. We had $455 million authorized and available for future stock repurchases at the end of the quarter. We expect to continue to repurchase shares in the fourth quarter.

Turning to our cash flow. We had good operating cash flow of $151 million for the third quarter, which compares with operating cash flow of $231 million last year. Year-to-date, operating cash flow was $644 million, which is $11 million more than last year.

Turning to our updated 2024 financial guidance. At this time, we are not able to provide without unreasonable effort and estimate of restructuring costs associated with the new restructuring plan for 2024. Although we expect this to primarily include severance pay and facility-related costs. Therefore, we are not providing GAAP guidance.

Our 2024 guidance is for current continuing operations as well as acquisitions that have closed and does not include the impact of potential future acquisitions or future share repurchases. Guidance also assumes that foreign currency exchange rates are generally consistent with current levels and that end markets remain consistent with current market conditions.

Our 2024 total sales growth is now expected to be 4% to 5% over 2023 compared to prior guidance of 4% to 6% growth. For 2024, we are increasing non-GAAP diluted EPS attributable to Henry Schein, Inc. to be in the range of $4.74 to $4.82, compared with prior guidance of $4.70 to $4.82 and reflects growth of 5% to 7% compared with 2023 non-GAAP diluted EPS of $4.50 as a result of better-than-expected results in the third quarter. This guidance reflects an estimated non-GAAP effective tax rate of 25%.

Consistent with prior guidance, we continue to expect our 2024 adjusted EBITDA to grow in the low double-digit percentages versus 2023 adjusted EBITDA of $984 million. We expect adjusted EBITDA to grow faster than non-GAAP diluted EPS because of higher interest expense, a higher effective tax rate and higher depreciation as a result of the strategic investments we have made to execute on our strategic plan.

I will conclude my remarks with some comments on 2025. We plan to issue 2025 guidance as usual on our Q4 earnings call this coming February. As you have heard today, we expect modest improvement in the dental and medical markets next year.

And we expect to continue to grow faster than the markets, supported by some of our recent investments, new product launches and focused execution and continued cyber recovery. We are on target to achieve our restructuring goal, and this should help offset headwinds from higher depreciation expense resulting from our global e-commerce platform and additional investments in technology. We expect this e-commerce platform to accelerate growth once fully launched in the United States.

With that, I'll now turn the call back to Stanley.

Stanley Bergman - *Henry Schein Inc - Chairman of the Board, Chief Executive Officer, Director*

Thank you, Ron. Operator, we're ready to answer any questions that investors may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Elizabeth Anderson, Evercore ISI.

Elizabeth Anderson - *Evercore ISI Institutional Equities - Analyst*

I, just maybe a two-part question. One, can you just sort of comment on the overall health of the dental and medical trends is where we kind of get through October and into November? And then two, it seems like you have a bunch of onetime items. I think you talked about sort of the generic impact and some other things in medical and the respiratory season.

And then in dental, you talked about like DS World pushing some sales into the fourth quarter and some other things like how -- like, I guess, in terms of how we think about the third quarter results versus the guidance? If we have some sort of push outs into the fourth quarter, how do we think of that vis-a-vis the full year guidance on the revenue side coming down a little bit? Is that just conservatism? Are there other trends that we should think about as we think about the fourth quarter? Any comment there would be very helpful.

Stanley Bergman - *Henry Schein Inc - Chairman of the Board, Chief Executive Officer, Director*

Elizabeth, I'll give you a few thoughts on the current market and Ron will talk about the guidance. He's been working on that with the team. So the market is pretty stable, we think. There is a shift on the consumable side, at least in the United States, towards lower-priced alternative brands and our own brands. This doesn't really impact our profitability but it may impact and does impact the sales.

We also think the units have gone up in low single digits. So with lower single digits and movement of merchandise units to lower-priced alternative brands, including national brands and owned brands, you see a stable to slightly reduction in dollar sales in the dental market in the United States.

Our October -- having said that, our October merchandise sales trends in our distribution businesses were generally consistent with September of '24. So it's pretty stable. Having said that, October sales growth in implants and biomaterials are strong, driven by SIN, Biotech Dental, and in Europe, of course, our Camlog business. And we are seeing continuing good adoption of the BioHorizons' tapered pro conical implant in the US. So this is all taken into account by Ron as he works with the team on the guidance, and Ron can give you specifics.

But I think we can report a pretty stable market. And from our point of view, we are gaining back market share that we lost during the cyber incident, albeit at a slowish rate, but the rate continues in a positive direction really since the beginning of '24 and it's consecutively improving.

Of course, you've got to take into account, for us, glove sales where there has been a significant reduction in the price of units of gloves. And we think we may be seeing the bottom right now but we will call that out separately because that's a business where we don't really control the selling price at all. It's a commodity.

So Ron, maybe you want to give some input on how you've looked on the guidance.

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

Certainly, Stanley. Elizabeth, we took into consideration a lot of the trends that Stanley just articulated in terms of how did we see Q3 ending? how did we see October? Markets are relatively stable. There is a market dynamic out there, perhaps a little bit of a shift to some lower-cost products. With reference to equipment, we did -- as we mentioned in the prepared remarks, we do expect perhaps a little bit of a benefit from the timing of the DS World in terms of how that will benefit Q4.

Having said that equipment tends to be -- Q4 tends to be the most important quarter for equipment. So all those things were taken into consideration and then ongoing growth that we experienced on the implant side as well for the fourth quarter. So those are all specific factors.

On the medical side, we're really closely monitoring what's happening with the timing of the flu season as we did see some softness in the sales of diagnostic kits in the third quarter. And so we've been monitoring some of the information that comes from the CDC and taking that into consideration in our guidance. So those are all things that could impact the fourth quarter as we go forward.

Operator

Jeff Johnson, Baird.

Jeffrey Johnson - *Robert W. Baird & Co. Incorporated - Analyst*

Ron, maybe just one clarifying question on what you said about 2025 and then one question on EPS this quarter. But on 2025, you talked about maybe some modest margin -- market improvement and expect to gain a bit of share things like that. The street is sitting at just over 4%, almost 4.5% revenue growth next year and 11% EPS growth or nearly 11%.

And relative to your comments, those both sound a little bit high. And you don't usually comment, I know, on the third quarter call about 2025, but you did kind of bring it up and open the door a little bit. It just feels like to me maybe, were your comments specifically kind of asking us to sharpen our pencils and maybe bring those two sets of numbers down a little bit for next year?

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

Certainly, Jeff. Well, as you stated, we haven't provided 2025 guidance yet. We are looking at both what's happening in terms of market trends as well as on our own recovery of -- and gains in market share. And so those are factors that will be taken into consideration when we provide that guidance in February of next year.

Beyond that, a lot of this is just what kind of momentum that can we take from Q3 into Q4 and sustain from Q4 into 2025. So we just need to kind of see how the balance of the year plays out and all that will be taken into consideration in the 2025 guidance.

Jeffrey Johnson - *Robert W. Baird & Co. Incorporated - Analyst*

All right. And then just on third quarter EPS itself, you had the $0.11 remeasurement gain in there. Obviously, you had kind of a $0.10 remeasurement gain in 2Q last year. I think the net in 2Q last year was closer to a $0.05 benefit because you also had some of the SIN and Biotech kind of higher than normal acquisition costs you called out in that second quarter last year for kind of a netting that to a $0.05 benefit.

But if I adjust for both those factors, both the remeasurement this quarter, the net of those factors in 2Q last year, your first half EPS this year was down about 5% with your core consumables in both medical and dental down 4% to 5%. I think that makes sense.

This quarter, if I take the $0.11 out and there wasn't really anything in 3Q of last year, I don't believe your EPS would have been down closer to mid-teens year-over-year. So what, where was that extra 10 points if you will, of adjusted basis falloff in earnings growth this quarter versus the first half of the year? That's the one hole I can't plug?

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

I think it's the ongoing recovery of market share in our distribution businesses more than anything else, Jeff. We're pleased with the -- there are some pockets of very positive news in terms of what we're seeing on equipment, what we're seeing in implants. But I think the ongoing recovery in distribution would be the primary contributor to that gap that you've identified.

Operator

Kevin Caliendo, UBS.

Kevin Caliendo - *UBS Investment Bank - Analyst*

Ron, this is sort of a math question here, but how do we think about the restructuring savings, the $75 million to $100 million by the end of '25 relative in size and scope to the higher depreciation costs? Like do they -- does one offset the other? And I guess my point is if we think about those two factors, other than mix, with revenues growing sort of above market next year, is there any reason beyond the restructuring costs versus the depreciation that margin shouldn't improve next year?

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

Well, we would expect margins to improve. I mean, obviously, the increase in depreciation expense would put some pressure on that. But I do believe the benefits that we gained in lower OpEx from the restructuring actions we are taking; that we've already taken in the third quarter, that we're taking now in the fourth quarter, and that will continue to take throughout '25, will more than offset the increase in depreciation expense. So, we should see some benefit to operating margin as a result of that.

Key to that, obviously, is growth in revenues, especially in the distribution business, given the fixed cost nature of that operating base. So, if we can achieve ongoing market recovery and distribution, be successful in executing on our restructuring initiatives, we should be able to see some operating margin expansion in 2025. But we need to see what kind of momentum we have, we can complete this year before we can commit to that.

Kevin Caliendo - *UBS Investment Bank - Analyst*

And just a quick follow-up. So thinking about the share that was recaptured in 3Q, the magnitude of that and how it's progressing in 4Q? If you can -- should it -- is it fair to assume that based on where you are now that you still expect to have a tailwind in consumables or share -- from lapping lower share in the first half of next year? Like are you at that point where you feel comfortable that at least for the first half, knowing where you are now that there will be a benefit? Or is that still relatively insignificant?

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

Well, yes, by definition, like we've said, we believe that sequentially this year, we have picked up some market share as we recover from the cyber incident from Q1 into Q2, into Q3. And so, we do expect that our existing market share, when we go into 2025, on the distribution side will be higher than when we went into 2024.

Now as we have stated in previous calls, that pace of recovery has been lighter than we originally expected. So, we're still working on what we believe that incremental market share will be as we think through the '25 results. But yes, by definition, one would expect that market share to be slightly higher.

Operator

John Block, Stifel.

Jonathan Block - *Stifel Financial Corp. - Analyst*

Stanley, maybe I'll just start with a pretty big picture. I think in the comments, you said next year, you expect the dental and medical markets to get a bit better and then you think you'll take share of that improvement. The improvement in the end markets, I'd say, has proven to be somewhat elusive over the past handful of quarters.

And so maybe you guys can just talk to your conviction there? What are the drivers? Is it a lower interest rate environment that leads to the improvement, notably in equipment? Is it consumer confidence? Is it lower financing on higher ASP procedures? What's really driving your improvement outlook if you would? And do you expect it to be more acute in either dental and, or medical?

Stanley Bergman - *Henry Schein Inc - Chairman of the Board, Chief Executive Officer, Director*

Yes, Jon, that's an extremely good question. So let's deal with the easier parts. And the easier parts are dental equipment sales in the United States. I think there is a deep interest in practitioners investing in their practices. They're quite busy. In fact, Ron was telling me, he was having a problem getting an appointment with his dentist locally. The dentists are busy, and they're feeling good about their practices, and they do know that if they invest in digital technology, they will do better.

So the whole area of the clinical workflow, digital devices, tying that into the software, electronic medical record, all of that is moving in a very good direction. Obviously, it's lumpy. This quarter, we had the situation of one of our biggest suppliers of scanners having a show slightly different time to last year. So this is a good market.

Yes, if interest rates come down in 100 basis points or more, I think that could move the needle. 200 basis points even better. So -- but there's a conviction to invest. In the units, it seems like on the consumable side, units are positive, but there is this movement towards shopping for lower-priced branded products. And if you can get the same product or similar product, you'll move to a lower price -- product. It does impact our margins a little bit, but that's balanced by a movement towards our own brand products, which sell at a higher price.

I think the implant market has stabilized, at least from our point of view. The higher end is still challenged. But I think from the market that we participate in, which is the value implant side, I think the market is reasonably stable to leaning positively. The outlook in Europe is a little bit better now than it was even a year or so ago, maybe two years ago with the instability with the Ukraine, et cetera. I think that sort of calmed down a little bit or at least bottomed out.

So Europe is leaning towards a positive. The rest of the world, Australia, New Zealand, for us, Brazil, it went down quite a bit, but it's also relatively positive compared to the bottom. So I think it's hard to tell exactly particularly where the election ends up and how people feel. But I think we've bottomed out to slightly positive on both the consumable side and on the equipment side with a leaning towards positive on the equipment side.

And from our point of view, I think we will continue to do okay with implants, endodontics and a very small orthodontic business that will start, I think, providing positive growth once we've moved our Smilers brand globally.

And so just a smaller side on the medical side, at the margin, we're doing okay, but it's very much dependent on two factors. One is flu seasons, when do they move from one way -- one year or one way another year. And of course, generics in the in the area of particularly injectables. And then you've got to take into account the price of gloves either way, but factor that out. And I think this will give you more or less a good view of our view of the market practitioners are investing in software.

We are doing okay on the software side, pretty good, but we've moved from SaaS -- from on-prem sale to SaaS subscription and that has to be taken into account. So that's sort of an overview of the various markets that we participate in. Hope here is doing well from our point of view. I think in general, it's doing well. And the orthopedic business, for us, the new one, is also leading quite nicely because there is a reasonable amount of movement to ambulatory surgical centers, which is where we're doing well.

Jonathan Block - *Stifel Financial Corp. - Analyst*

Okay. Great. That was very helpful, Stanley. And then maybe just a quicker follow-up. Implants impressive North American performance, pretty clear you're taking share. But it's hard to believe that, that would all be from the tapered pro conical alone recent introduction. So any more details on the contribution from that offering? And maybe more importantly, is it the conical having, call it, sort of a halo effect on the overall implant portfolio?

Stanley Bergman - *Henry Schein Inc - Chairman of the Board, Chief Executive Officer, Director*

Yes. I think it's also a good question. I think our salespeople are feeling confident that the work they've done over the last two, three years, talking to customers about our exciting offering, now turns into a reality, and we are seeing customers that are interested in our product, which is a reasonably priced product, high quality, supported by very good KOLs and now an expanded market opportunity for us. All of that adds up well. And we're talking about the United States.

As it relates to Europe, we continue to do very well, particularly in our big market, Germany, likewise, in Brazil and France. Then you can have a couple of hundred basis points movement one way or another due to export sales. But generally, the fundamental state of our business in the United States is very solid when it comes to BioHorizons and is gaining momentum as a result of the work that the team has done over the last couple of years.

And I would think that the appreciation of our product line by DSOs has also helped very nicely. And Europe, Germany, in particular, where we have the big market share, we tend to continue to pick up a little bit of market share each quarter.

And then the rest of the world, as I said, it's very much -- it's not that material. But it could move market share one quarter or another, depending on exports and depending on how we do in markets like Japan. We do not participate much in Germany, although we have a sales with a very low-end price-wise, high-quality product, but -- and then, of course, Brazilian perhaps.

Operator

Jason Bednar, Piper Sandler.

Jason Bednar - *Piper Sandler & Co. - Analyst*

Maybe I want to unpack a bit more on some of the prior questions, just some follow-ups here. Maybe if you wouldn't mind first bifurcating some of the assumptions around the growth performance expectations for '25? If the market next year is showing modest growth, is it right to think this is mostly volume and pricing is flat? Or would you characterize the pricing environment as slightly positive or negative that you're seeing manufacturer schedules roll out here for 2025?

And then if you also wouldn't mind just commenting on how you see specialty and non-specialty parts of the market fitting into your overarching comments on the dental market, that would be great?

Stanley Bergman - *Henry Schein Inc - Chairman of the Board, Chief Executive Officer, Director*

So Jason, as a distributor, if we move more towards manufacturers that want to compete a little bit more aggressively and that tends to be the second-tier manufacturers and there's a movement towards own brand, it could impact sales a little bit, all things being equal, but our profits are solid. So we can't tell exactly on the consumable side, but I would imagine that in particular with some of the larger accounts, our suppliers will want to be competitive.

As it relates to equipment, specifically in Europe, there is a movement towards high-quality, lower-priced equipment units. And that has resulted in good sales for us, margins are not bad. And I think the manufacturers will -- all of them really in the end, will understand that there has been consumer resistance as a result of the increase in pricing in the post-COVID period. So I think from our point of view, the profitability point of view, I think we're okay.

Obviously, on the distribution side, regaining customers on the -- as a result of the cyber incident is going to continue to be important, and we have repositioned our sales force accordingly. Our sales team was very much engaged until a few months ago in making sure that the customers that were impacted by the cyber incidents are okay and safely embedded with Henry Schein.

Now the smaller periodic customers, we do not spend a lot of time with those customers. Our salespeople are focused on that. Our telesales team has been reorganized to focus on that, more resource put into these smaller accounts that we seem to have had challenges -- we did have challenges with in the post-cyber incident, and that's the focus.

And then our website, which was down had some challenges in regaining customers. I think we've got a lot of very good e-commerce activity going on there, social media type stuff, and we are recovering. So I think those items are very much going to impact us and we see more or less a continued stable market with us driving our sales in the areas that I've mentioned and, of course, focused on high-growth, high-margin businesses, that now account for just over 40% of our operating income and another 10% or so percent from our corporate brand, private brand product offering. So it's about half the business that we have to make sure that we continue to grow.

Jason Bednar - *Piper Sandler & Co. - Analyst*

Okay. And then just as a follow-up, Ron, you mentioned in the prepared remarks, press release having already influenced cost savings of $50 million. Can you give maybe a bit more detail on just where you're seeing these cost savings, maybe outside of the orthodontic business you referenced during your prepared remarks, some of the consolidation or cost efforts on, I think, the endodontic business that you fully acquired? Are there other revenue impacts or disruptions we need to think about as we look ahead to 2025, beyond just orthodontic?

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

No, I would say that we obviously proceed carefully such that the reductions we make minimize or have very little effect, if any, on revenues. We have, given the decline in distribution revenues, some of the restructuring initiatives have been in the distribution businesses. We've also -- we have not had quite the revenue growth as originally expected in some of the technology areas. We did do some cost reductions there.

But I do think that we are able to continue to invest in new products, and we're bullish on '25 that we can go into '25 lean and with an opportunity to reinvest in those businesses, as necessary. So that would be part of that.

I think in terms of other things we're looking at for '25, as we said back on our Investor Day, we expect dental markets to be growing on normal in, say, in the 2% to 4% range. That 2% next year is probably a closer barometer than 4%. But there's a lot of things that can influence this. Stanley mentioned earlier, that lower interest rates could encourage more investment, we could see more de novos. And expansion of the supply of dentistry would be very beneficial for us. So if we can see some increased investment in the build-out of practices, we think that would be something that would influence the number more than anything else in '25.

Operator

John Stansel, JPMorgan Chase.

John Stansel - *JPMorgan Chase & Co - Analyst*

Just want to get a sense of intra-quarter trends within medical? And beyond that, how you're seeing your different end markets, the ASCs, doctors' offices, IDNs, how they're behaving both from a customer and competitor perspective? What you're seeing just generally in the competitive balance for medical right now?

Stanley Bergman - *Henry Schein Inc - Chairman of the Board, Chief Executive Officer, Director*

Yes. So if you look at the medical market for Henry Schein, you put aside the ups and downs of the flu season, whether it's vaccines, COVID and general flu vaccine and those may shift up or down slightly and from one quarter to another. And you x-out the impact of respiratory challenges. Are people worried about that? Are they going to doctor more or less? You take that out.

The business is pretty stable. We are recovering from the cyber incident. We did lose some customers, specifically lost some to drug wholesalers. And I think the customers in our sector understand that we provide a very different service and they're coming back.

So that's the core distribution business, which I think will -- if you x-out these respiratory and flu challenges and you take out the glove ups and downs, it's a pretty stable business with us growing market share as a result of the recovery.

Then you add to that, not material in terms of sales, the progress we're making on the orthopedic side, which is pretty good. That business is doing well, both the recent acquisition of the orthopedic of the extremities product offering and our saws and blades business, not so much in sales, but in profits, it's very good. The home care business is doing well. You have seen -- we're not seeing local currency growth yet. I think that annualizes, Ron?

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

In the middle of the fourth quarter, yes.

Stanley Bergman - *Henry Schein Inc - Chairman of the Board, Chief Executive Officer, Director*

In the middle of the fourth quarter. So that's pretty good. And the movement to ASCs is pretty good. There were some encouraging news we just got that reimbursement. For foot and ankle procedures undertaken in the ASC is going to be going up. And I think the medical business is a very efficient business, a great sales organization, extremely well managed (was identical to dental by the way).

And I think you can expect continued momentum and decent margin improvements. I can't give you the exact quarter where else is going to happen. But the trend is very good and the business is quite stable. We still have to get back some of that pharmaceutical distribution that went to the drug wholesalers, but I think our team will get that back because our service is very unique.

John Stansel - *JPMorgan Chase & Co - Analyst*

Great. And then just one quick one. On the technology business -- or well, I guess, value-added services, in particular here, called out that the difference between LCI and reported revenue -- it was more, I want to say, cosmetic in a way that better to look at the reported revenue side. Can you just kind of walk through the dynamic that is playing out there? And why the headwind from, I think, value-added services is causing a problem here?

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

Yes. I'll try to give you my as concise of an explanation on that as I can. The transaction we did last year of LPS was completed effectively either July 31 or August 1. So we had one month of acquisition activity or acquisition growth from LPS versus two months of internal growth from LPS. And they had a very good July. So the revenues in that month are a factor in our acquisition growth as opposed to our internal growth.

So had we spread those revenues out over the course of the quarter, we think that it would -- the total sales growth would be more reflective of what we expect of that segment going forward.

But the nature of that business is it can be very lumpy. It's not a recurring customer base. It's a series of transactions and the timing of those transactions can make for some unusual math. But now that transaction has annualized, it will be part of our internal sales growth going forward.

Stanley Bergman - *Henry Schein Inc - Chairman of the Board, Chief Executive Officer, Director*

And Ron, thank you. And we need to also ensure that you've taken into account the movement from on-prem sales to the SaaS model where it's a monthly subscription, but the units are doing quite well and our cloud-based system both in the United States, which is our big market and our international business. So the business is quite good and it's growing.

Operator

Brandon Vazquez, William Blair.

Brandon Vazquez - *William Blair & Company L.L.C. - Analyst*

Since we're bumping at the end here, I'll throw two together. The first one is, Stan, you had made some comments about some dental manufacturers wanting to -- I think the phrase you're using is compete a little bit more. Maybe that trend be impacting you guys going into '25. Just curious if you could elaborate on that? I'm not sure, is that new? Or is that something that you guys have always dealt with? So just any comments around that?

And the second follow-up question is just any color you can give us on specifically what's happening within the restructuring in that clear aligner business, that would be helpful, too?

Stanley Bergman - *Henry Schein Inc - Chairman of the Board, Chief Executive Officer, Director*

We've been mentioning in our calls now -- kind of remember three or four quarters now that consumers are -- of dental products, and I guess it's consumers in general are looking at quality of the product versus price the value. And if they can see a better value in something else, rather than necessarily a national brand, they're going to go in that direction. That has been, of course, a driver in our own brands.

Now not every large manufacturer is ignoring these trends. Many are dealing with it. But there are some that took their prices up quite high and there's been price resistance. And we've said this for a while and not only the consumables, but on the equipment side, specifically on the equipment side in Europe. So I think this is going to adjust itself. We certainly have mentioned to our manufacturing partners, they understand us.

And remember, we are committed to national brands, but we need to ensure that the national brands we represent are competitive in the eyes of our customers. I think this will adjust. I don't think this trend will go on for a long time. But it's certainly magnified this quarter and actually the last couple of quarters.

Ron, on restructuring?

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

Yes, certainly, with reference to the orthodontics question, yes. So we are transitioning our clear aligner products in the US and the European markets from Reveal to Smilers, and we're doing that over a period of time. We also saw it as an opportunity to -- as opposed to our orthodontic business, quite frankly, we just weren't getting to a scale with that business to justify the infrastructure we have there. And so we're able to leverage our existing distribution infrastructure more so and reduce some costs, some operating costs within that business as we transition.

And at the end of the day, when you bump up Reveal to the Smilers, we saw Smilers as a better product. And given the size of the business, it likely didn't make sense for us to have the two brands. And so we are transitioning to Smilers as a result.

Stanley Bergman - *Henry Schein Inc - Chairman of the Board, Chief Executive Officer, Director*

It will take a couple of quarters to smooth this out. But the Reveal product is a very good product. But the Smilers brand has additional software with Nemotec backing it up. And wherever we've tested it, it seems to have gone quite well, has gone well.

So operator, I think we're near the end. I want to thank everybody today.

Operator

We do have one more.

Stanley Bergman - *Henry Schein Inc - Chairman of the Board, Chief Executive Officer, Director*

Ohh, we have one more question. Sorry.

Operator

Mike Petusky, Barrington Research.

Michael Petusky - *Barrington Research Associates, Inc. - Analyst*

Understanding this is not a call where you're talking about '25 a lot, but I'm just curious if '25 in terms of capital allocation will -- in terms of what you think now? I mean is that going to look more like '24 in terms of M&A, share repurchase, internal investment, sort of the relative ways you guys sort of make decisions around those? Or could that look more like the '22, '23 time frame where external investment was a little bit heavier?

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

Yes. Mike, my expectation is it will be more in line with the historical run rate that you saw kind of going into that '22, '23 period, which is typically share repurchases a bit in that $300 million to $400 million range, M&A was in that $300 million to $400 million range. There also could be some opportunity as we've been very pleased with the positive cash flow that we may be able to pay down debt a little faster depending on where we think we get really the best accretion for that capital outlay. But I would expect it to be more in line with those historical trends.

Having said that, as you know, we are -- we remain with an opportunistic approach on M&A. And if the right type of transaction becomes available to us that we think is fundamental to our strategy and to growth of the business, it was something that we would not exclude the notion of doing that transaction.

Michael Petusky - *Barrington Research Associates, Inc. - Analyst*

Okay. Great. And a quick follow-up. Just in terms of potential M&A, whether it's in '25 or beyond. You guys have made some positive comments about Home Solutions and obviously have built that business up, but I know you want to scale it further. Can you just talk about where assets in the Home Solutions space would sort of rank in terms of M&A priorities?

Stanley Bergman - *Henry Schein Inc - Chairman of the Board, Chief Executive Officer, Director*

Yes. That is an area that we expect to continue investing in. I don't think we need to make huge investments, but we need to make investments that expand our offering nationally in the United States, give us access to contracts. But I don't think this is a need to spend a huge amount of money. It's rather an opportunity to add to our platform and fill it out in areas where we don't necessarily have the delivery capabilities, although we are going to leverage the Henry Schein infrastructure for delivery in certain parts of the country, but also accessing certain insurance contracts that may enable us to position a faster growth rate.

We've put in place an outstanding team in this area through the acquisitions and through recruiting that we've undertaken in the last couple of years. And this business that -- both the demographics and the fundamentals, the operations of the business are very sound, and we're very excited about it.

So we thank you for calling with five minutes over. Sorry about that. As you can tell, we feel very good about the business. We're performing quite well throughout the business. We believe that we will continue to steadily gain back our market share in the distribution businesses, the ones that were challenged by the cyber incident. We believe that our high-growth, high-margin products and services businesses are all going in the right direction.

Of course, there's a small endodontics business we are restructuring. But if you take that out, the implants and the endodontic businesses are positive. The ingredients in our value-added service businesses are all working in a nice direction and should result in stickiness with our core customers. And we are sunsetting our 2022 to 2024 strategic plan. If you x-out the cyber incident, I think we've done pretty good on delivering on our plans, ideas, tactics.

And we will discuss on the next call, our '25 to '27 strategic plan. We don't expect to change anything in a significant way, but to emphasize certain areas that we think are an opportunity and we'll articulate that to you.

And capital deployment, as Ron said, is expected to be very similar to this year. You never know there may be an opportunity and cash flow, we'll use to invest, as in the historical past, in some acquisitions, buying back, supplying some minority interest in our current portfolio of investments and of course, buying back stock. We have over $300 million still to spend in that area.

So with that in mind, I wish everybody a good safe holiday season, and we'll be back early next year and remain quite optimistic. The team is working extremely well. The restructuring has been understood by the team very well. And nothing that we haven't done in the past. We treat our people very well, and that's appreciated.

So thank you all for your interest, and that's it. Graham, Ron -- thank you.

Operator

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation.
