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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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Tom Popeck *Henry Schein Inc - Head of the Specialties Group*

CONFERENCE CALL PARTICIPANTS

Jon Block *Stifel, Nicolaus & Company, Incorporated - Analyst*

PRESENTATION

Jon Block - *Stifel, Nicolaus & Company, Incorporated - Analyst*

All right, guys, I think we're all set. Jon Block with Stifel.

Thanks for joining us. Here this morning with Henry Schein, we have Schein's Chief Financial Officer, Ron South; and Head of the Specialties Group, Tom Popeck. Guys, thanks for joining us.

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

Thank you, Jon.

Jon Block - *Stifel, Nicolaus & Company, Incorporated - Analyst*

Ready for some questions.

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

Absolutely. Let's go.

Jon Block - *Stifel, Nicolaus & Company, Incorporated - Analyst*

We usually have Stanley kick us off. So I was going to give you the floor, but I guess we can get right into it.

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

Absolutely.

QUESTIONS AND ANSWERS

Jon Block - *Stifel, Nicolaus & Company, Incorporated - Analyst*

I'll start with dental. Stable dental volumes have sort of been the theme in terms of how you've been describing the landscape. Ron, I'll start with you, just any changes to that stable theme, either positive or negative?

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

One of the trends we saw as we kind of got to the latter part of the third quarter was that -- and the market data that we were collecting supported this. We felt like merchandise kind of moves with patient traffic. Patient traffic in dental offices has stayed -- you can say stable, which is kind of another way of saying you're not getting the growth perhaps that you'd like to get out of it as well, right? But it's not getting worse.

But we have seen that merchandise units began ticking up a little bit, but it's not really showing up in revenues because what we're seeing is that I think there's a little more cost-conscious customer out there right now who is willing to either move to a lower-cost branded product or perhaps move to private label. So that stability, I believe, is still out there for dental.

We did see good growth, for example, in -- or at least sufficient growth in our traditional equipment. We did see a little bit of a downturn, more -- I think, based on timing in digital equipment. And for us, the traditional equipment tends to be more important. It's about two-thirds of our equipment revenues. But -- so we're maintaining that stability, and we're just kind of looking for a little more stimulus in the market to get -- to accelerate that growth, perhaps more de novo investment as interest rates go down, there are some other things out there that could -- that we believe could be beneficial for us.

Jon Block - *Stifel, Nicolaus & Company, Incorporated - Analyst*

And I'll try to distill it into dental consumables and equipment and break it apart. So when I mentioned stable, let's stick with the consumables for right now. It sounds like when we're dealing with basis points, you got to get pretty detailed. So you mentioned stable, maybe a little bit of a slight pickup. So call like stable plus, but a little bit more of a pronounced move to private label. I thought that has been the case for awhile now? Like is that accelerating? Or are we -- first encountering that, and we have to go through 12 months or so until we start to lap that sort of a move. Maybe that's a better question for Tom.

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

Yes. I'm going to ask Tom to kind of chime in because he does look after some of our private label.

Tom Popeck - *Henry Schein Inc - Head of the Specialties Group*

Yeah. So what I would say is it's definitely growing faster than the rest of the business. We are seeing that customers are being more cost conscious and looking for those value brands where they can.

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

Okay. And I think that's really a function of the higher inflationary period we went through, say, 18, 24 months ago, kind of raised this cost-conscious awareness from customers. And to your -- what you said earlier, Jon, is that we have seen some on the margins, some growth in private label that has slightly outpaced that of branded merchandise. And you begin to see -- when you look at the market data, and you see, okay, units are up, but market revenues are flat, then that kind of -- it kind of confirms that as well, right?

Jon Block - *Stifel, Nicolaus & Company, Incorporated - Analyst*

And just to push you, I mean, to go after private label a little bit, can you just walk us through -- like if we were to deconstruct it? In other words, obviously, you get the lower revenue, but what does it mean from a gross margin perspective? I'll sort of answer my own question, higher gross margin but isolate that gross profit dollar. Like ultimately, where do we land on a gross profit dollar from a private label versus branded consumable?

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

Yeah. I mean typically, the gross profit dollars are going to be a little better on a private label sale than in a branded sale. It can differ a little bit by product categories. You can appreciate there's a lot of different product categories that we sell out there with private label. You also have to look at kind of gloves versus the rest of it because the glove market is still seeing some depressed pricing, right? So you have to kind of carve gloves out of that, but look at some of the other product categories. Typically, you do get better gross profit dollars out of a private label sale than you do out of a branded sale.

Having said that, we're not -- we still value our partnerships with our supplier partners. We're not necessarily leading with a lot of private label products, but we are we are seeing a little more pushback from customers and that pushback has continued since that inflationary period. We're not going to lose the sale. We can then offer up private label to them if that's, in fact, going to be important.

Jon Block - *Stifel, Nicolaus & Company, Incorporated - Analyst*

And that's one of the things that's unique to Schein. Tom, maybe to throw this question to you, where are we in terms of when we think about your dental merch business between private label and branded percentage?

Tom Popeck - *Henry Schein Inc - Head of the Specialties Group*

The percentage Ron, what would you say the percentage?

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

Again, it can really vary by product category.

Jon Block - *Stifel, Nicolaus & Company, Incorporated - Analyst*

I know PPE can distort that a little bit. .

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

Yeah. Private label provides us with, I would say, somewhere in that high single-digit range of our operating income, right? So we've talked about this in the past about how -- if you look at own brands across the board, meaning our specialty products that we self-manufacture, our technology that we develop ourselves, and our value-added services that we obviously own and we own the brands, that's about 40% of our operating income.

If you then layer on top of that, the private label, again, brands that we control, it's about 50% of our operating income across all brands. And I would say the contribution to operating income coming from private labels in that kind of 9% to 10% range.

Jon Block - *Stifel, Nicolaus & Company, Incorporated - Analyst*

Okay. Maybe one more on consumables, and then I'll pivot over to equipment. But, like what should we be looking for as that accelerant to underlying dental consumables? You mentioned traffic hasn't been that bad, and that's what our checks show, like hygiene is busy. We always hear that the chair is relatively busy but you're not seeing the conversion necessarily to the restorative, right?

I mean, notably something like clear aligners, which is highly discretionary, but maybe there's even a leaky bucket on something like implants. So maybe -- is it a two-part question, I'm not sure, but is there one where the underlying visits even strengthen further. But more importantly, this is about increasing the conversion to some of the rest, though, to see the dental consumable numbers consistently in that low single-digit plus range?

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

Yeah. I mean we can cover a lot of ground there, but if you kind of just start with your core dental consumables, I think the stimulus we're looking for, like I was saying before, I believe the -- and we, as a company, believe that the demand for dentistry exceeds the supply right now. And as you said, hygienists are busy. Hygienists are busy and if God forbid, you have to cancel your dental appointment and try to get back into your dentists, it can take a long time to get back in. So dental offices, dental practices are very busy.

I think that stimulus is how do we expand that supply. At what point will the interest rates get more attractive for some of the larger DSOs, for example, to build out more de novos than they have historically because there is a demand for that supply. And I do believe that, that could be the stimulus that could provide some growth going forward.

You mentioned the more discretionary type of items such as implants. Implants, especially in the US are greater out-of-pocket cost to the patient and therefore, it becomes much more discretionary. And it is an area that we have seen a little bit of a shift towards more demand, for example, from our customers for value implants. And we believe we're well positioned on that. We've been able to expand the product portfolio with BioHorizons through the SIN acquisition we did in Brazil. They had an FDA-approved value implant that we were able to start selling in the US, and it has kind of filled out that portfolio a little bit.

You're seeing more and more general practitioners who are willing to take on implant procedures. They're typically going to take on the more straightforward implant procedure, which means they're willing to work with a value implant. They're willing to work with a value system of implants. The more complex matters when you've got a complex jaw structure or something like that is still going to get referenced to the oral surgeon.

But I think that's where you're seeing a little bit of a dynamic there kind of shifting some things, and we think we're well positioned for that. But it is more discretionary. You do see ups and downs with it more so than you do in say just general dentistry.

Jon Block - *Stifel, Nicolaus & Company, Incorporated - Analyst*

Okay. And then just quickly to hit on equipment. I don't know if you want to bifurcate it between traditional and basic. But I'm guessing some of those same things can act as a tailwind on the equipment side, right, certainly de novos and the need for equipment and then what we should look to interest rates, and I think I've tried to ask you guys this question on a prior call, but where is the tipping point? Like what matters from an interest rate environment where you could actually see for lack of a better word, an inflection. I'm guessing it's not your 25 or 50 bps. Is it 200? Is it 100? What matters there?

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

Yeah. I'll be honest with you. I don't know. It is a -- I don't think we're at that point yet. Let's put it that way. I think that the expectations in terms of what interest rates were going to do seems to be moderating a little bit, and I think that might be putting maybe some pause. On the flip side, that could be good. If people are waiting for rates to come down, and they don't think they're going to come down, even they're willing to invest now, right? So there can be a counterpoint to that as well.

In terms of equipment, you're right, you do have to bifurcate between traditional equipment and digital equipment. There are two relatively distinct markets. Traditional has been fairly steady for us. And that's also been helped a little bit through service revenues that we get on our traditional equipment.

Digital equipment, you still have some volatility. We're still seeing a little bit of volatility, for example, in scanner prices. You're seeing timing of DS World in the third quarter in terms of when some of those -- some of that activity is going to come through in the fourth quarter.

You still see -- perhaps I thought by now we might get a little better traction on 3D printers. But there's still -- I would say, any practice out there who's buying a 3D printer is still seen as an early adopter at this stage. So there's still, I think, some runway there in digital equipment, but it doesn't contribute to the volatility in that product category.

Jon Block - *Stifel, Nicolaus & Company, Incorporated - Analyst*

Okay. Very helpful. I'm going to look out in the audience. Guys, if you have questions, have your hands up. And if I don't see you just yell out. But otherwise, I'll plow forward. Tom, I'm going to pull a u-turn.

I'm going to go back to the 2025 construct in a little bit. But just as CEO of the Healthcare Specialties Group, maybe just tell us. So you're heading up what? You're heading up Endo, Ortho, the Private Label. Maybe just give us a quick rundown there. And then importantly, what's the goal? Is it to drive those businesses faster than the others, call it, which would be, I guess, the underlying distributor business and the implant division?

Tom Popeck - *Henry Schein Inc - Head of the Specialties Group*

Yeah. So in general, we look at this as the high-growth, high-margin part of our business. And my responsibilities are for any product that we design, develop, manufacture, source, anything as long as we put an owned brand on it. Everything except implants and biomaterials, that's separate.

So the key ones that you referenced were Endodontics, Orthodontics, and now Orthopedics as well because we are in the Orthopedic implant business specifically around the extremity side of the business, which is more focused on outpatient. But these are areas for us that are the higher margin, higher growth segments of the business.

Jon Block - *Stifel, Nicolaus & Company, Incorporated - Analyst*

Okay. Is there a way to quantify how much higher those margins are when you think about it? And how much does it vary between the Orthopedic business versus that of the Endo business and the Private Label, et cetera?

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

The -- our specialty businesses tends to have, what I'll say, gross margins that are consistent with market, right? And so if you look out at what others are doing implants in Orthodontics and Endodontics, it's going to be consistent with market. I think typically, you're going to see gross margins north of 60% on a lot of these products, right?

Something like Orthopedics, which is really kind of in some respects, folds in with our medical business because we see the ASCs, the ambulatory surgical centers as a key customer segment for them. That will be accretive from a gross margin and an operating margin perspective. versus, say, our core medical business, right? So we will get better margins in that business than you do, say, in core medical.

Same holds true with our home solutions business by the way. The home solutions business, which is really focusing on providing supply to home health care providers, that is also growing faster than core medical at margins that are better than core medical as well.

Jon Block - *Stifel, Nicolaus & Company, Incorporated - Analyst*

Okay. Ron, maybe just to go back to you for a second and to push for a moment. We upgraded the stock roughly 13 months ago last October. And I'd say there's two main tenants to the upgrade at that point in time. One was that you guys were going to resolve the cybersecurity attack and the headwinds would be less pronounced than what the stock reflected at that point in time. And I think that's largely played out. The other one was, hey, you're this hybrid distributor manufacturer, you're not getting full credit for it from a multiple or valuation perspective.

Is there any thought -- you can go through the 10-Qs and you can get the margins or do a better job GAAP of TVAS. But it's still a little bit of an unknown or a mystery of like that margin profile of dental specialties or even some products within medical. The want or the thought behind like, look, we're undervalued, let's give some more detail here, let's furnish the Street consistently with a dental specialties margin profile, a TVAS margin profile that we can all do the math on the implied distributor or if you wanted to get that and let people take more like that sum of the parts. Because look, those acquisitions are costing you more to do at different valuations than if you were to buy a mom-and-pop distributor. So why not provide that to the Street and let us sort of get behind that and do the work there?

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

Well, we have been providing some information around our dental specialties with our earnings releases. We do kind of talk to these things a little more so than we have historically. Your segment reporting is kind of dictated by GAAP as opposed to what you want to do. But I do think that these are areas that as we kind of progress into like you were saying before, into this -- it's a greater hybrid of a business now. It is an area that we continue to explore in terms of what is the type of information that we can be providing that might provide more valuable information to investors, and we'll continue to do so.

Jon Block - *Stifel, Nicolaus & Company, Incorporated - Analyst*

Okay. Fair enough. Tom, I'll go back to you, the Orthodontic business. Stanley referenced in the most recent call, there was some transition taking place there. Maybe if you just want to remind investors what's taking hold as you sort of move from Reveal -- off Reveal pardon me? And then how long will that transition take place?

Tom Popeck - *Henry Schein Inc - Head of the Specialties Group*

Yes. So just as a reminder, Orthodontics is a smaller part of our business right now. But -- was it last year as part of the BioTech acquisition?

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

Yes.

Tom Popeck - *Henry Schein Inc - Head of the Specialties Group*

They had an Orthodontic business called Smilers, and it's just a clear aligner business. So the technology, the software, in particular, is -- was definitely a step up for us. So we're in the process now of transitioning our clear aligner business from the Reveal brand to the Smilers brand. We started that transition in some countries in Europe over the last three months, doing some testing work here in the US right now, but intend to have it fully transitioned by the end of Q1 2025.

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

Okay. And by the way, I mean I love what we're doing there. We haven't been able to get, what I would say, sufficient scale in our Orthodontics business to really kind of justify the infrastructure we had in place for it. Tom has done a good job of kind of coming in and saying, how do I better leverage existing Henry Schein assets?

And we had a discussion around we're going to start distributing the Orthodontic products from our distribution centers that we use for our dental and medical businesses. When you -- I still remember when you called and asked me, we were talking about it. And the first thing I said to him was what else you got that we can sell through the distribution centers, right? How do we get better leverage out of one Schein.

Jon Block - *Stifel, Nicolaus & Company, Incorporated - Analyst*

To help that operate more as a specialty type of margin.

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

Yes, absolutely. So I think it is an area that we are looking at how to -- it becomes a bit of a beta, but there are already other things we're looking at doing following that business as well. But with the Orthodontics business, it is something that we -- until we get the scalability of it, we have to figure out a way to run it more efficiently, and this is kind of the first step towards that.

Jon Block - *Stifel, Nicolaus & Company, Incorporated - Analyst*

Okay. Understood. I said I was going to dip back to '25 construct. I'll ask questions that I think are high level just to sort of put up some goalpost. So Ron, on the most recent call, we'll go back to the LRP, the dental market, I think some of the numbers accompanying the LRP for dental was around up 2% to 4%. I think you alluded to maybe be at the lower band of that for 2025, but you also talked about the ability for ongoing market share gains -- pardon me.

And so is that conservative enough? Because if I look at the dental numbers year-to-date through the first 3 quarters, they're down low single digits internal roughly. And if you say up 2% to 4% with some share gains, it's hard to land further south than 3%. So like is that the right place and your level of comfort that we can go from down low single digits for the first nine months of '24 to up low single digits for the first -- pardon me, for 2025?

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

Yeah. I mean we're all talking year-over-year. So I think that as we have sequentially over the course of the year, picked up a little bit of extra margin each quarter. A lot of this comes down to what's that momentum going into '25. Also, a little bit of price as well. What we're going to see happening on price because right now, I think prices are fairly I guess, you could say stable, meaning you're not seeing a lot of price increases, right?

Yeah. The 2% to 4% you referenced, that goes back to our Investor Day, which we did in February of '23, where we did talk about what we kind of saw as our long-term CAGR in core dental being 2% to 4% growth rates in the market. It's up to us then to try to increase that market share so that we can be more towards the high end of that perhaps.

Right now, what we're seeing in dental would suggest, I think throughout '24, I would argue the dental market was pretty flat as a market itself. Are we going to see a little bit of a lift into '25? That's part of what we're still trying to figure out as we contemplate '25 guidance.

Jon Block - *Stifel, Nicolaus & Company, Incorporated - Analyst*

Okay. Do you see the lift and then you do have the conviction that you should be able to be a share gainer in that market? Whatever it's going. If it's going [0 or 2], you believe your position is (multiple speakers) [secure]?

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

That means -- that's what you're in business for, right, to take market share? So yes, we have to assume that we can execute on that and get some market.

Jon Block - *Stifel, Nicolaus & Company, Incorporated - Analyst*

And I want to just go back to what you said earlier, why would price be more prominent -- I mean I look across my other industries and contact lenses in animal health and price has been pretty robust, but they're sort of implying pricing '25 might be a little less than '24, '23. I mean, obviously is inflation is somewhat subsided. Why would price be more prominent for you guys in '25 versus '24?

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

Why would it be or why would it not?

Jon Block - *Stifel, Nicolaus & Company, Incorporated - Analyst*

Why would it be? I thought that's what you might have alluded.

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

What I'm saying, we didn't see a lot of price benefit in '24. So I think it's more of the comp more than anything else, right? But that's not to say it's going to be, yeah, we're going to get 5 points of price or nothing like that, right? It's going to -- I think it's still going to be a fairly modest price opportunity in '25 versus '24.

Jon Block - *Stifel, Nicolaus & Company, Incorporated - Analyst*

Okay. And just maybe put up some of the moving parts from medical. So to go back to that LRP, that was a 4% to 7% or a healthy mid-single-digit. Obviously, you guys have been south of that. Maybe, Tom, this brings you into the play in terms of some of the initiatives you guys have with your own private label business, but what are some of the factors that can help accelerate that because I believe you're still experiencing a little bit of a trade down to generics in that part of the business?

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

Yeah. Well -- and that should annualize on some of the more principal pharmaceuticals that we sell.

Jon Block - *Stifel, Nicolaus & Company, Incorporated - Analyst*

Flowing into '25 that [well on]?

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

Yeah. So the pharmaceuticals we sell are limited to those that are administered in a physician's office, right? We don't -- we're not selling statins. We're not selling blood pressure pills. We're -- it's typically injectables that have to be administered in a physician's office. We have seen some of those products in the last year go off patent and we have been able to sell the generics, but that kind of impacts your top line a little bit with them.

I think we are seeing lighter traffic into the physicians. We mentioned this on the call -- in the third quarter earnings release call. I think McKesson has kind of made similar references. We don't know if it's fewer people are getting sick or fewer sick people are going to the doctor, but there does seem to be -- when you look at things like demand for point-of-care diagnostic kits, the kits that the doctor will administer to test you for flu to test you for COVID, to test you for strep. Those are fairly moderate right now.

So that is an area that over time, we're kind of closely monitoring the flu season. You look at what's happening in the Southern Hemisphere and flu, what's the timing of flu season going to be. We're still thinking that there could be kind of a later flu season that could be beneficial. But you have to see how this plays out a little bit. We're monitoring the CDC site like everybody else is on that right now.

Jon Block - *Stifel, Nicolaus & Company, Incorporated - Analyst*

Okay. I'm going to shift gears. We've got about 7 or 8 minutes left -- restructuring. You completed the restructuring initiative that you originally undertook in late '22 and now you've got the new restructuring plan I think the new one is looking for about $75 million to $100 million in annual savings by year-end '25. I feel there's always like the number and then there's the net number. So is there a way to think gross to net and how that might look for calendar '25?

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

Yeah. It's always kind of hard because you're always investing in the business, right? So how much of this is reinvestment of cost savings versus money we would have invested anyway. So it's always a little bit difficult to really kind of specify how much of that $75 million to $100 million would absolutely fall out to the bottom line. But we do want that to be beneficial to the bottom line. I think the investments we're making in the business are arguably investments we might have made anyway, but it gets easier to make those investments if you can find cost savings elsewhere.

So -- is there going to be a complete 1:1 on that on the savings? We'll have to kind of see how things play out and where the need for investment is going forward. But Orthodontics is an example of an area where we saw an opportunity to kind of restructure that business, save some money, and we've done so.

We're taking a look in a few other areas as well. And some of this, too, is just as we saw a little bit of pressure on the distribution business coming out of the cyber attack, kind of rightsizing some of that distribution business. That's been a big part of the restructuring also.

Jon Block - *Stifel, Nicolaus & Company, Incorporated - Analyst*

And just to be clear, $75 million to $100 million sort of annualizing run rate exiting '25. So I mean is that wildly back-end weighted? Or you're making changes as we speak?

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

No. I mean, we executed on a lot of initiatives throughout the third quarter, and we continue to do so in this quarter. So I think we had said in our earnings release that the annual cost savings that we estimate from the initiatives that we completed in the third quarter would provide about $50 million of cost savings in 2025.

So we've already -- let's put it this way, we kind of went about some of the, what I'll call, kind of easier things. Other things we're going to do might be a little more complicated. I mean you're talking about moving operations from point A to point B or if you're talking about combining some operations, that takes a little more planning, and that will take throughout '25 to execute.

Jon Block - *Stifel, Nicolaus & Company, Incorporated - Analyst*

Okay. So maybe just a handful of questions left. And help me out with this, Ron, because at the end of the day, when I have your model in front of me. It's like I've got my top line. Then whatever I'm doing with that OM is what wildly swings that EPS number. Is it 15 bps or 20 or 25. So if I think about 2025, again, at a high level, you've got the restructuring initiative. Some of that's already in play, call it, it will work its way higher throughout '25.

You also have some of the specialty businesses that you bought that might have been varying levels of accretive in '24 was the initial plan, but I would think the level of accretion of those businesses would accelerate further in '25, what are the headwinds or what's working the other way because that seems to point to decent OM expansion for '25 versus '24 based on what I just laid out?

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

Well, I think in terms of headwinds, we are launching our global e-commerce platform. We will take on some additional depreciation expenses that goes live in '25. That's something we have to contemplate. There's ongoing investment in the business. the geography of our P&L changes up quite a bit when you get more and more into self-manufactured product, you got a little more R&D costs.

These things can get a little lumpier, a little less predictive sometimes from period to period. So that does add to the volatility of our P&L versus when it was primarily distribution. So you can get a little bit of that. But we've got a few other things in '25 that we'll have to try to manage cost wise. But it is -- a lot of this comes down to -- you're talking about top line, what kind of momentum can we get through the end of '24 into '25, so that we can fund these things with a healthier top line.

Jon Block - *Stifel, Nicolaus & Company, Incorporated - Analyst*

Two or three more. Tom, I'll go back to you. Maybe just the organization's ability or breadth to take on additional deals, right? I mean, you guys have really good free cash flow. We saw an outsized number of deals in '23. It's somewhat moderated in '24.

Ron, maybe I'll go back to you on growing implants for '25. But I mean clearly, there's this push one plus one of higher-margin businesses, maybe more Schein private label. So when you look across what you're running, and you just brought in a lot in '23, even though most of that was implants, but the organization's ability to take that on effectively?

Tom Popeck - *Henry Schein Inc - Head of the Specialties Group*

Yeah. So, the, we're always looking for opportunities there. There's a pretty robust pipeline that we're always evaluating and looking at. We spent a lot over the last 12 to 18 months, right? So we're in the process now of integrating and bringing those products in and leveraging those opportunities. So we're kind of getting to the tail end of that where we're looking at other opportunities now. And I think we have the capacity to take on a few of those and leverage a few more opportunities.

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

I would add to that, too, that and this is especially applicable to some of the businesses that Tom looks after. One of the areas of investment that we have executed on in '24 has been buying out some of our minority partners in certain subsidiaries that we have. And what that's allowed us to do is -- it's allowed Tom to kind of treat, for example, in the Endodontic business, we kind of had almost a portfolio approach of different Endodontic businesses that we're operating because you have different minority partners in a couple of those businesses.

Now that we've gotten to 100% ownership there, we can treat it more as a singular business, right, as opposed to a portfolio approach. And I think that's where we can really begin to kind of leverage the Schein name, use our -- the strength of our sales force to help promote those products more so. So that's been a very, very important part of our strategy as we've gone through '24.

As you said '23 was a very heavy year very heavy lift for us in terms of acquisitions. '24, we really needed to focus on integrating those businesses. But when you go out and buy out minority partners, it's fairly efficient. You're not doing due diligence. It's an efficient (multiple speakers) yeah, it's an efficient process of getting there. And that has been -- I think it's something that is really positioning us well, I think, to accelerate growth going forward.

Jon Block - *Stifel, Nicolaus & Company, Incorporated - Analyst*

One of the things that I think people did like in the most recent quarter was, again, the implant performance. So maybe in the last minute we have, Ron, over to you, just one quarter doesn't make a trend, but you've got a new product there. You mentioned the move overall to value. You mentioned GP uptake on implants. All those things would seem well suited for Schein.

Your conviction that the recent share gains can continue and even further out when we look over the next one to two years, how do you capitalize on those trends move to value, maybe playing into your portfolio and GP take on implants?

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

No, the move to -- I think the move to value has been important for us in terms of -- while BioHorizons isn't necessarily, I would call it a value implant. We've kind of characterized it more as a sub-premium implant. So it is price competitive with premium implants. And as you mentioned, we had about mid-single-digit growth in North America and in Europe on implants in North America and in Europe on implants in the third quarter.

We're pretty certain that the markets are not growing at that rate right now. So we feel pretty good about that we're getting some market share. I think it's the strength of the portfolio. And a part of this, too, is beginning to execute on some of the acquisitions we did in '23, SIN in Brazil, BioTech in France in terms of giving us some scale in that product category as well.

Okay. Fair enough. We're going to stop there. Guys, thanks very much for your time. Appreciate it.

Thank you.

Tom Popeck - *Henry Schein Inc - Head of the Specialties Group*

Thank you.