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EDITED TRANSCRIPT

HSIC.OQ - Henry Schein Inc at Goldman Sachs Global Healthcare Conference

EVENT DATE/TIME: JUNE 11, 2024 / 3:20PM GMT

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PRESENTATION

Nathan Rich - *Goldman Sachs & Co. LLC - Analyst*

Great. Thanks, everyone, for joining us. My name is Nathan Rich. I cover the dental space here for Goldman Sachs. Very happy to have Henry Schein with us, Ron South, SVP and CFO. Thanks all for your time this morning. Appreciate you being here.

QUESTIONS AND ANSWERS

Nathan Rich - *Goldman Sachs & Co. LLC - Analyst*

Then maybe starting with just some high-level questions on the dental end market. You talked about softer start to the year than some improvement in the dental consumables business in March and April. Can you maybe take us through how you -- what you feel like drove that improvement? Was it end market driven?

Obviously, you're coming off of the cybersecurity incident, and so seeing some sales recovery there. How did you see the first quarter play out? And as you think about the balance of the year, how do you kind of feel that a high level about the end market overall?

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

Certainly, yeah. So the first quarter really had a mixed bag of effect, right? You had -- early in the quarter in January, we were still coming off from a specific company perspective, still coming off some customer recovery process that we were going through following that, the cyber incident. But there was also complicating factors in the early part of the quarter.

There was some significant adverse weather within the US that often dampened demand for dental services as well as a higher than normal flu infection rate that we saw that will typically increase cancellations in dental offices. So January started off pretty soft for us, quite frankly. And I think most of the industry saw that way as well.

We began to see that recovery in February. How much of that is coming off, normalization of weather, normalization of flu infection rate versus ongoing cyber recovery gets difficult to assess, but we were just happy to see some recovery in February. And that recovery sequentially continued into March. We saw some stabilization in April and in the early part of May that stabilization continued.

But we still think there's opportunity for us as the year goes on to continue to regain market share and to also, trying to increase share of wallet with our existing distribution customers. But right now, the general merchandise market is very much confined by what's happening in patient traffic, which is it's stable, but we need it to be growing a little bit more in order to see meaningful merchandise growth going forward.

Nathan Rich - *Goldman Sachs & Co. LLC - Analyst*

So maybe just on that point you just made. So stable patient traffic that you talked about, they're really not being much there from a pricing standpoint this year. Is that why March/April flattish from a dental consumables?

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

Yeah, that's probably fair. That would be a fair assessment. And it's also -- we believe our practices, our customers are very busy. It even anecdotally, when you talk to people, if they've had to deal with a -- if they had to cancel a dental appointment, it's often months before you can get back and see your dentist. So the President of our North American distribution group was telling me, he would assess that.

His estimate is about 90% of our customers are operating at capacity, which is a very good number. And there's probably about 50% of the general population out there that should be seeing a dentist that's not seeing a dentist. So there's great opportunity for growth there. But if all your practices are operating at capacity, kind of confined that opportunity for growth. So as we see more and more dental schools opening, which is a positive, we do think there's going to be opportunity in the next couple of years to see a little more market expansion on the dental side.

Nathan Rich - *Goldman Sachs & Co. LLC - Analyst*

I want to come back to that point because I think it's an important one just in terms of practice throughput and what that can do for the long-term growth of the market. As you think about getting back to this growth in patient traffic and consumables volumes, there's a lot of focus right now on pressures facing the consumer. It's the reason why the industry is growing below what its target rate has been.

From your point of view, what do you think are the key variables? Is it your jobs? Is it inflation continuing to come down, is the access to financing a hurdle right now for patients doing procedures? I just would love to get your perspective on that.

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

Yeah, probably the one most important macro metric that we track is unemployment. And it's a very US-centric kind of comment. But within the US, looking at unemployment because people are remaining employed, and we just hit 4% was the last I heard, but still not a bad number. Then they still have access to care.

And our business is largely driven by ultimately the public's access to care. If they have access to dental care, and they are generating that consistent churn of consumable merchandise in a practitioner's office, that's better for our business. So a lot of people are getting their dental insurance through their employer. And as long as those unemployment rates are staying as low as they are, that's a good macro metric for us.

You mentioned interest rates. We can address interest rates in a couple of different ways. Interest rates will impact some of the financing decisions that our customers might make on high-dollar equipment. What we can do, for example, with individual practitioners is that we can -- we will typically co-promote attractive financing rates to them with the manufacture of the equipment.

So if interest rates are ticking up higher than where our customers are happy with it, we can -- for example, we recently did a 5.9%, 9% equipment financing promotion for customers. And we shared in that spread, that interest rate spread with the manufacturers. So we will co-promote with that the other way.

Th either way interest rates can influence the market a little bit gets to some of the high dollar procedures that you referenced to. Things such as, for example, a full arch implant. It can be very, very costly, and it typically or can be typically financed by the patient. And if interest rates are a little higher, you can see some pullback in the demand for those procedures.

Quite frankly, that's an area that we have, it's a very small part of our implant business. Our implant business is focused more on the individual implant as opposed to the full arch implants. So that hasn't had an effect on us as perhaps others in the industry.

Nathan Rich - *Goldman Sachs & Co. LLC - Analyst*

Got it. Okay. That makes sense. How would you characterize demand in Europe and some of the other larger markets like Australia relative to the US at this point, especially Germany because it seems like there's been a lot of focus that obviously being in key dental market and the weakness there?

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

Yeah, Germany is one of the larger international markets for us. I would say Germany has been -- you see a little bit -- so dependent on what part of the market you're talking about, but what we've seen in Germany is we're still doing well in implants there. We had mid-single digit growth with our implant business there, which we were quite pleased with. We felt that was an indication that we were getting market share.

What we saw like in the in the standard business was it's relatively flat. But we actually got a little bit of growth driven by equipment servicing which is interesting because it's an area that we have emphasized a little more, but trying to market it a little more because we do see it as an area that our customers appreciate the service, and they find value in the service.

What we don't know is, is that growth driven by that marketing or is that growth an indication of our customers holding onto their equipment a little bit longer. What's happening, we'll build and see how that trends out over the next several quarters. So that's been good for us in Germany as well.

There are other aspects of the business in Germany that are, I would say, are a little more flat, but we haven't seen the same kind of headwinds, perhaps as others who are more narrowly focused in that market. Right?

Outside of Germany, you mentioned Australia, important international market for us. Australia had some very good post pandemic incentives that the government put out there that have since expired. That's creating a little bit of a headwind for us there.

Also, country like Australia, Spain is another, where a high percentage of the population has a variable rate mortgage. And as interest rates go up, their mortgage payments go up. So it does squeeze a little bit the disposable income, and you do see a little bit of impact of that in some markets. Australia pie being the most significant of that.

Nathan Rich - *Goldman Sachs & Co. LLC - Analyst*

Okay. Wanted to go back to what I just talked about with equipment because I think that's an area of the market where you've seen some pressure across the industry. And I think there seems to be a fairly strong replacement cycle right coming off of the pandemic. To the point you made about the servicing plans, where do you think we are in that, like replacement cycle for the market? And do you think demand was pulled forward coming off the post pandemic and seeing the very strong recovery in the market?

And then I did want to ask on the service plans in particular because I feel like many dental practices outsource that to a third party. Now, that may be a service that you can provide for them. So maybe how you're going to market there and what's the margin implications as you grow that line of business?

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

And we're really -- when we talk about equipment in this context, we're really talking about what I'll call standard equipment, meaning the treatment center, the chair that the patient is in with the lights, et cetera, right? And yes, I do think there was some volatility, some, what I'll call kind of, positive volatility in standard equipment the last couple of years.

Some of that was coming out of the pandemic. You had perhaps a little bit of pent-up demand associated with those who perhaps deferred some equipment purchases at the peak of the pandemic, say, in 2020. You also had a lot of end market churn of customers or patients who changed dentists and created opportunities for some practices to expand their practices.

We also had some who saw the pandemic as being something short term that we're going to take lulls an opportunity to replace equipment without being disruptive to their practice. So we were getting double and multiple quarters over, say, in '21, '22 that began to level off a little bit in '23.

We do think that if you go back and look at the 2019 level of standard equipment demand versus where we are now, it's a nice, consistent CAGR. We're seeing it level off a little bit now. But I think going forward, as we go, we should get back to something that would be more normal in that mid-single digit growth on standard equipment.

In terms of where are we on the replacement cycle, hard to say. It is a -- you have to look at the individual practitioners versus the DSOs. Lot of DSOs out there. That equipment growth comes from de novo practices as they build out new practices.

Some DSOs are focusing a little more on how do we optimize the capacity of our existing practices versus adding -- continuing to add on de novos. So that has dampened perhaps that standard equipment demand a little bit but not a great deal.

So where are we in the replacement cycles, very hard to say, but it goes back to, if we can continue to get more dentists into the market because I do think that demand for dentistry services exceeds the existing supply that would prompt greater investment going forward and standard equipment as well because it's functional. It's something if you're going to have more patients who need more chairs. And so I just think that it just will follow that trend.

On the service side, it is an area that we are starting to market more and more. We've developed a product that is much like an uber style of an app that our customers can use that can pull a technician quite quickly. Especially in the larger metropolitan areas, we can typically have a service rep in a practice in two hours or less, which is important to our customers. If that chair was empty, you're not getting revenue from that chair.

And so if we can get our service repping quickly, not even -- it's a good margin, but it's also -- it builds customer strength, right? It makes it stickier. The customer feels like you've given them good service. So it is an area of importance.

And one day, we are starting to invest in a little more, like I said, in these types of tools that can make it more efficient. Can we increase the number of visits that a technician can do in a day? That all just cannot falls to the bottom line if we can.

Nathan Rich - *Goldman Sachs & Co. LLC - Analyst*

In terms of practice service demand, I feel like one of the other things that we’ve seen the last couple of years as you've maybe seen a bit of a pullback in terms of practice formation. Do you see that changing at any point than a couple of years? Is that a fair characterization?

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

Would you say practice formation just in terms of de novo?

Nathan Rich - *Goldman Sachs & Co. LLC - Analyst*

Yeah, that's right.

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

Yeah. Well, I think this goes back to are there enough dentists, right? And as you get more and more dentists coming out of dental school, a lot of dentists coming out of dental schools these days will actually go to work for DSOs. So they're coming out with some fair amount of debt, and they don't really have perhaps the funding to invest in their own practice.

So I think that will prompt perhaps a little more growth on the DSOs and denovo practices. But like I said, we believe the demand is there for the supply of dental services to grow. And if that's the case, then that provides opportunity across the Board, whether it be merchandise or equipment.

Nathan Rich - *Goldman Sachs & Co. LLC - Analyst*

Stanley's talked a lot about the need for digital integration and that sort of being one of the areas that you're focused on helping dental practices. I would imagine that could potentially help from a capacity standpoint to you if you improve.

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

Yes.

Nathan Rich - *Goldman Sachs & Co. LLC - Analyst*

Practice workflow. Can you maybe just talk about what the specific solutions are there and feel like it's something that we've heard about for a long period of time? I guess maybe how that is implemented in practice in the clinic would be helpful context.

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

Yeah, very much. So we have a digital clinical workflow product called Nemotec that allows -- and we kind of call it three click dentistry, right? And it allows a practitioner who has a neutral oral scanner to take a scan of a patient with one click, update the patient records. And then be able to then send an image directly to their 3D printer, their chairside mill or to a lab, and then also process a much more accurate claim with the insurance company along the way.

And it really increases the efficiency of the practice. It starts with that scanner that we've talked a lot about, some of the disruption in scanner pricing the last year or so that has stabilized. But it really has to start with that scanner. So it's an area that we're really -- we really think that as scanners have become more affordable to practices, we're seeing probably about a 50% penetration rate, which sounds low. But there are a lot of practices out there that still provide an impression material.

If they don't have a scanner, none of the other things can happen, right? You're not going to buy a 3D printer without a scanner. So what we do expect to see is greater growth in this digitalization because it does provide an opportunity for the practice to see more patients in a day.

It can actually increase their number -- and additionally increasing the number of patients that can increase revenue per patient with this type of procedure and this type of efficiency and ultimately reduce their costs in terms of the accuracy of the claims that are going to the insurance companies and having to reprocess claims. All of that are right now existing pain points for our customers for the practices that we think can be addressed through digitalization.

Nathan Rich - *Goldman Sachs & Co. LLC - Analyst*

And on the high-tech equipment piece, the scanner being the cornerstone, I feel like you've seen good growth -- good volume growth there. ASP is starting to save lives. Does that mean that the high-tech piece of the equipment portfolio gets back to growth this year.

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

That's our expectation. In our first quarter earnings release, we did say that we expect modest equipment growth this year, but that would be driven by a relatively flat standard equipment growth. So those chairs, units, and lights but with some modest growth in more CAD/CAM style equipment. That being scanners, 3D printers, chairside mills.

Imaging is still seeing some headwinds on pricing. But right now, we think that the CAD/CAM piece can more than offset that headwind on the imaging side.

Nathan Rich - *Goldman Sachs & Co. LLC - Analyst*

Okay. Yeah, I'm going to ask about the digital M&A? Because it seems like that's been particularly negative, probably towards the top of the high ticket.

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

Yes.

Nathan Rich - *Goldman Sachs & Co. LLC - Analyst*

Big pieces of equipment practice can buy. What's -- within high-tech, what's the relative mix between CAD/CAM and imaging?

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

Within high-tech, I would say, it's probably roughly half and half. That's a rough number for us. It could differ from other companies. But I think for us, it's great.

And equipment in general, our standard equipment has typically been about two-thirds of our equipment revenue, tech being about a third. And then within that third, it could be roughly half and half.

Nathan Rich - *Goldman Sachs & Co. LLC - Analyst*

I wanted to spend some time on the specialty businesses. That I think particularly implants is an area where you guys have done incredibly well. I think the investors are having a tough time thinking through the dynamics of the implant space. And specifically, you have a tough end market like we've talked about especially towards the higher end of the implant procedures that are done.

We have a lot of the manufacturers making it a focus to reaccelerate growth of their implant businesses. It's kind of -- at a high level, how you see this playing out. It seems like in that type of environment, it could put pressure on pricing, which probably plays right into your portfolio and where it's positioned. So just to be curious to get your perspective on how you think the dynamics of this market are going to --?

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

I think especially in terms of North America, where we have positioned ourselves historically, has been what we would consider to have a premium implant product but at a sub-premium price. So we've been able to be fairly price competitive in that premium market. If all the premium players are bringing their price down, we haven't seen them bring their price down to our price, right? So we still feel like we are price competitive there that's allowed us to protect market share.

Where we have had kind of a bit of a gap in North America was on the value implant side, where we think there's actually potential for very good growth on value implants. The acquisition we did last year of S.I.N. in Brazil, it gave us access to a value implant. That was already FDA approved.

S.I.N. had this implant. They weren't selling it yet in the US at any level of scale. They didn't really have the infrastructure for it yet. But we are able to fold it into our product portfolio of BioHorizons, and now we are selling S.I.N.'s value implant in the US.

That's an important product for our DSO customers, whose GPs would like to do their own implants as opposed to referring it. Typically, if they're doing that, they're going to take on to more basic procedures, in which case they can work with the value implant. So that's -- we feel like we have a good demand for that.

Equally, there's another product that we are awaiting FDA approval we should have it very soon that will allow us to sell a more deeper connection bone implant. That really represents about 50% of the market out there that we were not able to sell into. And we have again -- our DSO customers and other customers have expressed an interest in this product. And we think that will help us on the back half of the year in terms of our revenue growth there.

So the implant business in North America with these changes, with the S.I.N. value implants, with the FDA approval of the more deeper connection of bone implant has really allowed us to broaden the product portfolio, and I think set us up for good growth going forward there.

Nathan Rich - *Goldman Sachs & Co. LLC - Analyst*

So that's the first bone level implants you're going to be able to solve this?

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

We have a bone level implant in the US, but this is a much deeper one. It's a -- not to get into the --

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Nathan Rich - *Goldman Sachs & Co. LLC - Analyst*

You are right.

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

What they call a deep connection conical Tapestry implant. So it's very similar to the technology we use for our implants, that Camlog sells in Europe. So it's a proven technology. It just didn't have FDA approval in the US. It's not the exact product that we're doing in Europe, but it's very similar to. It's based on the same technology.

Nathan Rich - *Goldman Sachs & Co. LLC - Analyst*

And if you face a big competitor in that space, is the strategy the same? You want to bring that premium type product at a value price?

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

Yeah, value -- I don't know if I would call it a value pricing as much as we call it a sub-premium.

Nathan Rich - *Goldman Sachs & Co. LLC - Analyst*

Sub-premium price. Okay. And then on the S.I.N. in the value space, how do you feel like you can differentiate yourself because I think the sub-premium pricing on a premium type product, that is a real compelling value proposition.

Value space, I feel like is there the same type of opportunity to price at a discount versus the other options that are on the market currently?

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

Yeah, very much so. And I think that it is a -- like I said before, it is an area that our DSO customers have been asking us about how do we get a value implant from you. And now we've been able to address that with the -- one of the advantages DSOs have perhaps is there access to education. They will sponsor a lot of broadly based education program. So it gives their GPs the opportunity to learn implant procedures, get certified on implant procedures.

But they're typically going to at least start if not just stay with the more straightforward procedures they can do with the value implant, more complicated procedures, but likely still get referenced to an oral surgeon. So they don't need a premium implant system to do the type of procedure that they would like to do, so the value implant is attractive to them.

Nathan Rich - *Goldman Sachs & Co. LLC - Analyst*

I wanted to ask you about DSOs because that's kind of been a core of your distribution business for a long period of time. You talked about -- I think had made several references here about selling more specialty products into DSOs. Have you seen consolidation and the vendors that they want to work with in terms of the scope of products that they're buying.

And then can you also touch on the technology side as well? Have you been able to sell in Henry Schein One solutions set to those customers?

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

Yeah, I don't know if I would call it consolidation of vendors with our DSOs as much as I'll call it -- some people don't like the word formulary when it comes to this type of thing. But it's really what formulary do they want to have.

I think one of our customers likes to call it the marketplace because their practices don't like the idea of being restricted to a formulary. But it is a -- we do try to keep them to that. Our supplier partners are welcome to participate in that. If it's a price competitive situation, it's up to us to negotiate a chargeback from our supplier partner.

A lot of our DSO customers are interested in private label from us as well If it helps us get to pricing that they find more attractive. So that becomes part of it. The technology piece, very important part of it. A lot of -- many of our DSO customers want their practices to be on a common platform. And so we do -- for a lot of our larger DSO customers, we set up a conversion.

You can't convert everybody on the same day, obviously. But as they acquire practices and build out practices, we have a schedule of getting them on to primarily on Dentrix Ascend. Most new customers are going on to Ascend, which is the cloud-based practice management system. And so we do have -- we schedule them out, and get them on to Ascend what that allows us to do as well.

Our DSO customers also like some of the business analytic tools that come with the Henry Schein One can offer because it does give them the opportunity to get a snapshot of the financial metrics of all their practices and identify the outliers, both negative and positive that they can develop some best practices in terms of the profitability and what can they apply across all their practices.

Nathan Rich - *Goldman Sachs & Co. LLC - Analyst*

And I guess one of the other long-term opportunities was, the tech business has a pretty broad suite of solutions. I think kind of the upselling beyond just the core Ascend product has potential for multiples of additional spend from a customer relative to that baseline? Maybe where are you in progress with that and just the strategy around trying to drive that sell-in since that seems like a big incremental revenue?

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

Yeah. I know that share of wallet opportunity is very important for us because, and from a practice management perspective, especially in the US, where we're already at about a 50% market share. So the market share expansion opportunity is more limited. But what you can do is you can take a look at the suite of services that those customers are buying. And if a customer were to purchase everything available to them, they'd be spending about $1,500 a month with us.

I think average customer is spending about $500 a month with us. So there's that opportunity. So we're really focusing on that share of wallet, whether it be patient experience, electronic claims, and the latest that is gaining some traction is Detect AI.

Detect AI helps the practitioner with their diagnosis of cavities, specifically caries, which are pre cavities, and that may not be necessarily visible to the naked eye. And so it does give them that opportunity to sit down with the patient, show them where they should be anticipating an issue, and then is there a way to treat that in a way that's going to be much more palatable to the patient as opposed to having to have a cavity filled. And that's really gaining a lot of traction as well. So that's where we see the opportunity there as how do we continue to improve that share of wallet.

Nathan Rich - *Goldman Sachs & Co. LLC - Analyst*

And I feel like, what we've talked about with the specialty businesses and with tech, it seems to be having the impact on gross margin as been one of the areas that have recently consistently exceeded expectations. Can you maybe talk about just like it's one at a high level, are we at this point where you guys have been talking for several years about getting the growth of these higher margin businesses, driving gross margin, and offsetting pressure in the core distribution business. And then over the balance of this year and into '25 maybe, how we should be thinking about modeling gross margin?

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

Certainly. So I think as we mentioned in the Q1 release, we do see the gross margin for Q1 being relatively representative of what we expect the gross margin to be going forward for the year. You could get some pluses or minuses coming out of that depending on what happens with some of the products.

If in fact we get greater growth, for example, in distribution than we expect right now, that might put a little bit of pressure on the gross margin. But that likely will help us on gross profit dollars. So that's not a problem I'm going to dodge from, correct?

But yeah, as we see the growth of our high -- what we term, our high growth, high margin businesses exceed that of the of the distribution business, it's going to continue to provide a little more profitability, a little better leverage in the P&L.

One of the internal measures and something we've talked about externally as well and one of our internal goals was by the end of this year, we wanted our specialty businesses. So that being implants, endodontic products and orthodontic products, all of which we self-manufacture. Plus, if you take our Henry Schein One, our technology products and other value-added services products that we provide to our customers, if you took that portfolio of business, which right now consists of something a little north of 15% of our revenues, our goal was by the end of this year that that 15%, 16% of revenues would actually constitute at least 40% of our operating income. And we actually hit that goal in Q1 when it was nearly 41%.

So while it's a small part of the top line for us, it's a much bigger piece of the operating income pie for us. If you take that number and tag on, some of the private label we're doing in distribution, that is another about 10% of our operating income.

If you add that in, that means roughly 50% of our operating income is being generated by brands that we wholly control, whether it be through the self-manufactured specialty products, through the technology products, the value-added services or the private label. So that will obviously never get to 100%, but we do think we can continue to get some growth on that going forward as well.

Nathan Rich - *Goldman Sachs & Co. LLC - Analyst*

Yeah. So 50% of operating income from those products that you manufacture ?

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

The brands that we own. So we're not reliant on a third-party partner on those brands.

Nathan Rich - *Goldman Sachs & Co. LLC - Analyst*

We've also gotten some questions around SG&A and just how to think about that. I think it's been maybe a specially challenging this year, just with all the acquisitions that you did last year. Any guidance on how investors should think about modeling SG&A over the balance of the year?

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

No. I mean, I acknowledge it is challenging. We did $1 billion in acquisitions last year. The SG&A profile of the business is different than what it was, say, five years ago. We have more and more businesses that are self-manufacturing product, which means while we get that manufacturer's margin, we also have higher R&D expenses for example.

As we continue to push for more growth in Henry Schein One, we're going to incur more software development costs on the SG&A side. So there is -- the SG&A used to be relatively predictable. It's a little less predictable than it was, I think, at least from an external view as people look at it than it was, say, five, six years ago.

But there are areas. We've had some programs in place to reduce our occupancy costs. We've had some programs in place to corral in headcount a little bit. We had a voluntary retirement program a couple of years ago. These are all things that we -- that have helped with SG&A, but we're constantly having to look at. Given the transactions we're doing, you're constantly kind of going back and looking for redundancies, opportunities for integration, what can we do to reduce that cost base, and we'll continue to do so.

Nathan Rich - *Goldman Sachs & Co. LLC - Analyst*

And maybe what's sort of the near-ish one to two year view on M&A because you're obviously digesting a lot of deals that you've recently done? Should we expect a little bit of a slower pace over the next couple of years while that happens? And how do you feel just about the pipeline of opportunities?

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

Certainly. So yeah, we did do approximately $1 billion in acquisitions last year, which is by far the most we've ever done.

Nathan Rich - *Goldman Sachs & Co. LLC - Analyst*

Right.

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

We have room on the balance sheet to do that. We had been -- our leverage ratio was about 0.7, more or less. It's now closer to 1.7. But so it's still a reasonable leverage, and part of this was we wanted to keep the balance sheet clean so that if a year came along like we had last year where we saw some great opportunities that really fit into the execution of our strategic plan, we'd be able to do it.

So that was an exciting year for us. I don't expect to do $1 billion this year. I don't think we have the management capacity to do $1 billion of acquisitions this year, let alone put that much more pressure on the balance sheet. I'd rather not do that. So it's important that we integrate the businesses that we acquired last year and really execute on that integration and drive all the initiatives we have to accelerate the growth in those in those particular companies.

An area that we are taking a look at this year that we have where we see some opportunities would be more along investing -- increasing our investment in businesses which we already control. If you look at our first quarter statement of cash flows, it'll indicate that we spent $20 million in acquisitions. I'm using round numbers, right? That's in the investing section.

You look down the financing section, you'll see that we spent $90 million in shares that we acquired of minority interest in businesses that we already control. This is a good year for us to execute on this type of strategy because what it allows us to do is -- for example, one of the transactions we did in the first quarter where we bought out a minority partner was in our endodontic business. And it now allows us -- we can more easily sell some of those endodontic products using our US dental sales team.

We don't have a minority partner who we have to work out that profit sharing with et cetera, right? And we're taking a look at other businesses around the world where we can do something similar. So it's -- you know, they really do a lot of due diligence. You already have control of the business, and it increases your leverage opportunity going forward. And this is the right year for us to be looking at those opportunities.

Nathan Rich - *Goldman Sachs & Co. LLC - Analyst*

Interesting. Great. Well, with that, we're out of time. So Ron. Thanks very much. Appreciate you coming this morning.

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

Thank you.
