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HSIC.OQ - Q2 2024 Henry Schein Inc Earnings Call

EVENT DATE/TIME: AUGUST 06, 2024 / 2:00PM GMT

OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Henry Schein's second-quarter 2024 earnings conference call. (Operator Instructions) 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. Please go ahead, Graham.

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

Thank you, operator, and my thanks to each of you for joining us to discuss Henry Schein's financial results for the second 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 including 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 the business enable the comparison of financial results between periods where certain items may vary independently of business performance and allow for greater transparency with respect 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 & 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, August 6, 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'd like to turn the call over to Stanley Bergman.

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

Good morning, and thank you, Graham. Thank you all for joining us today. We delivered solid second quarter financial results, including strong operating cash flow that reflected stable end markets. Gross margin has continued to increase, driven by our strategies to expand our high growth, high margin products and services and by the successful performance of our recent acquisitions.

We are experiencing improving sales trends in our distribution businesses. However, the pace of recovery since the cyber incident last year has been slower than anticipated. Now given the challenging economic environment, we'll talk about a little bit later in certain markets as well as this delay in cyber incident recovery, we are updating our '24 full year financial guidance.

We remain committed to our long-term financial goals through our advancement of the BOLD+1 Strategic Plan, which has stood up well supported by a strong balance sheet and new restructuring plan. As we continue to generate synergies by connecting our distribution businesses, specialty products and technology and value added services.

We continue to see great symbiotic relationships between our various businesses. We are also announcing a restructuring plan to integrate recent acquisitions and right-size operations and further increase efficiencies targeting somewhere between $75 million to $100 million annual savings. We are comfortable that we will continue after this restructuring plan is put in place with improving operating margins and we are increasing at the same time our repurchase authorization following recent Board approval an additional $500 million as we expect to leverage the strong cash flow we have.

So let me turn to the various business units. dental distribution to start with. In North America, patient traffic was generally flat with the prior quarter with unemployment rates, dental insurance coverage generally remaining consistent with prior periods. We are experiencing improving sales trends in our dental distribution businesses, and we believe we gained market share in the quarter as we strengthened focus on gaining back episodic customers following the cyber incident.

Having the pace of recovery since the cyber incident late last year, has been slower than anticipated. We reported a year-over-year decline in merchandise sales, which reflects the pace of recovery and of course, lower sales of PPE products, which are primarily the result of lower lumber prices. Membership in the Thrive signature program continued to increase with nearly 1,500 new members added in the second quarter, bringing the total membership to approximately 6,000 US dental practices.

The subscription-based program drives customer loyalty and has been very good again in driving stickiness to our various businesses, whether it's distribution, specialty products or for that matter, specialty services. We were pleased with our North American dental equipment sales growth, this reflected positive trends across the board, traditional equipment, digital imaging, CAD/CAM and parts and services.

We achieved modest growth in international dental merchandise sales driven by good growth in the DACH countries and in Brazil. International dental equipment sales were impacted by a decrease in sales in France as a result of changes in the DSO legislation, a generally slow equipment market in Italy and the expiration of tax incentives last year in Australia with other markets generally in line with last year.

Given demographic trends, we expect patient demand to outpace the supply of dental services for seniors for awhile and for this to drive further efficiency need in dental practices, which you expect to be a positive driver in the growth of our dental businesses all fitting in the strategy with the BOLD+1 Strategic Plan. Now let's take a look at dental specialties. Shifting to our dental specialties business, sales growth in the quarter was generally consistent with the pace of growth in the first quarter as acquisitions and organic growth in Europe were offset by lower sales in North America.

In Europe, sales of dental implant products posted solid growth as we continued to gain market share with a broad -- with our broad and highly competitive offering. Within North America, we received FDA approval to launch the bone level tapered conical implant in mid-June. This was a bit later than we expected, and we believe this timing impacted the quarter two sales growth as some customers held back on purchases in anticipation of the launch of this important new product, we expect dental implant sales growth in North America to resume in the third quarter, aided by this new product line.

As a reminder, the Tapered Pro Conical business positions us to provide an innovative, highly competitive offering for the half of the US dental implant market we weren't previously addressed and the initial feedback we are seeing from customers is quite positive, and we look forward to reporting on our progress in future calls.

Our endodontic business continued to grow, aided by a small acquisition we made in Latin America. The focus for the downticks last quarter was the launch of the BioTech Smilers Clear Aligner into the US market. Again, our orthodontic business is very, very small relative to the entire specialty business. Now, it's important for our investors to understand, we continue to align our dental sales team's successfully deepening our penetration of the DSO's segment last quarter across our specialties.

On the distribution side, we are working in concert with the specialty businesses and the value-added services that are creating great value for our customers and in turn for the profitability of Henry Schein. So now, let's turn to the technology and value-added services and Henry Schein one, which is our dental software business.

The customer base for our Dentrix-Ascend and our Dentally cloud-based solutions continues to grow during the second quarter and was up more than 25% year over year with well -- with now worldwide installations exceeding 8,000. What I think is important to understand is when we in the past when we sold software, we recognize sales for on-prem software right away.

We are switching rapidly to cloud-based solutions, which are highly profitable in the long run and retention rate is great, but you don't recognize the full sale and the full revenue at the time of the sale. These cloud-based practice management software products are both the cornerstone of Henry Schein One and at the same time, a powerful enabler of additional product sales and equipment merchandise at the Henry Schein level as well as driving specialty products through the Nemotec software that is now being advanced in sales.

The number of claims processed by our revenue cycle management claims business increased by single digit percentages versus the prior year. Now this is despite the Change cyber incident and under normal circumstances, we would have expected the greater growth. But the Change healthcare cyber incident has slowed us down, we are servicing our customers there's no interruption from that point of view, but there is some impact on the cash collection of our customers because it changed the process, the actual payment we process through change the claims processing, we found an alternative source that the actual check of electronic transfer to the customer funds is still going to change.

Some dental practices are therefore, facing cash flow challenges due to reimbursement delays and we believe this continued to temporarily impact demand for certain software products. And we think a little bit also on the equipment side businesses -- we believe a temporary cash flow issue which will get resolved that never impacts -- that never really impacts our collections of our receivables, but it is a bit of a challenge to some practices that are not getting the checks as frequently as they were the claims are being processed.

The collaboration between Henry Schein One and our Distribution and Specialty Products businesses supports highly integrated solutions, enables deeper customer relationships and multiple touch points between Henry Schein and our dental customers, which helps drive growth, as I mentioned earlier, and this is especially the case with the DSO segment, although, as we move towards our 2025 strategic plan, we will drive the synergy down into the smaller accounts.

Many of these high quality leads for Dentrix products and services are generated by the US dental field sales representatives and by the way, this is the case not only in the US, but in Canada and in all the markets abroad where Henry Schein One operates. There are a few further examples of the integration, Nemotec the specialty software, that was developed by biotech in France is now integrated with our Dentrix practice management software in the US, providing, as we discussed during our Investor Day, the integrated three click digital workflow software for implants and orthodontics.

This is being recognized by some of the big DSOs as very, very important. We have implementation of some of the big DSOs, and we expect this to advance further, advancing Henry Schein's strength and connectivity to these DSOs and again, will overtime advance to the smaller practices.

We also expanded our solutions offering, but pairing Dentrix detect AI -- that's our the AI system -- clinical AI system result powered by video help and an early caries protection solution with a terrific current product and early caries treatment product. We're also having early success with the recent launch of Reserve With Google.

All of these are being well received by the most sophisticated, larger DSOs. And we will say we are quite optimistic. That's the solution that will become standard of care over time in many practices. So these are some of the examples of the unique strength of our combined platform, and we continue to unlock benefits and value from the interconnectivity -- the interconnectedness across our business, all of this is contained in our strategic plan thinking.

Let me just now quickly return -- to now quickly turn to our Medical Group. Second quarter sales also reflect the slower than anticipated pace of recovery from the cyber incident. In addition, sales were impacted by ongoing migration to generic alternatives for certain branded pharmaceuticals and particularly in the injectable area where we have very strong market presence , there was a decline in sales of PPE products yeah, or primarily result of lower pricing.

As with the dental distribution business, we continued to win back episodic medical customers and in particular large accounts that moved from -- moved their prescription drug business to other distributors, primarily the drug distributors. Once the customers understand our unique logistics capabilities they are moving back, it takes time that may enter into commitments.

And I think although this is slower than anticipated, we will get these customers back. Excluding the impact of point-of-care diagnostic tests, which were impacted by flu seasonality. So, the quarterly sequence of the flu diagnostic testing moving from one quarter to another did have an impact on the quarter. But sequentially, medical sales growth is improving -- excuse me.

Our home solutions business again performed well with sales up double-digit percentage during the quarter, led by the Shield shelf-care Prism medical businesses. We're particularly pleased with Shield and it's being well received since we acquired the majority interest in last October. So although our home -- overall home care sales volumes are still relatively modest, this is a strategically important market for us. And together with the movement of procedures to the ASC, the ambulatory surgical center represents enormous growth opportunity for Henry Schein.

So let me conclude my remarks -- my opening remarks before Ron takes over with the specific, map, we believe -- excuse me, we believe we delivered a solid second quarter financial results, again, including strong operating cash flow.

And although in the short term, we expect our results to be impacted by the challenging economic environment in certain markets, you have in dentistry experienced these kinds of ups and downs over the years. This one seems to be a little bit more of a challenge. And of course, with the anticipated recovery from the cyber incident has been slower.

But consistent every month, we get a little bit better. So we remain bullish about the prospects for the business in general, Ron of course, we'll get into more details. But before we get into answering questions, let me ask Ron to discuss our quarterly financial results and '24 guidance with a little bit greater detail. So thank you, everyone. Ron, please.

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

Thank you, Stanley, and good morning, everyone. As we begin, I'd like to point out that I will be discussing our results as reported on a GAAP basis and also on a non-GAAP basis. All items excluded from our second quarter non-GAAP financial results for 2024 and 2023 are detailed in Exhibit B of today's press release. A reconciliation of our GAAP to non-GAAP income statement is also available in our quarterly earnings presentation on our website.

With respect to sales, I will provide details on total sales, 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.

Turning to our second quarter results. Global sales were $3.1 billion with sales growth of 1.1%, this reflects 4.0% sales growth from acquisitions, the 0.5% sales decrease resulting from foreign exchange rates, a 0.5% sales decrease from lower sales of PPE, which is primarily the result of lower glove pricing and the pace of recovery from the cyber incident late last year.

LCI sales for the quarter decreased 2.4% which includes a 0.5% decrease from lower PPE sales. As noted by Stan, our underlying sales growth for the quarter reflects improving sales trends in our distribution businesses. However, the pace of recovery in these businesses since the cyber incident late last year has been slower than anticipated.

Our GAAP operating margin for the second quarter of 2024 was 5.09%, a 137 basis point decline compared to the prior year GAAP operating margin. On a non-GAAP basis, operating margin for the second quarter was 7.75%, a 41 basis point decline compared to the prior year, non-GAAP operating margin. Consistent with our BOLD+ One Strategic Plan, gross margin expanded by 101 basis points, primarily due to a greater contribution from high-growth, high-margin products and services.

Operating expenses were higher as a percentage of sales, primarily due to recent acquisitions and lower sales in our distribution businesses. Second Quarter 2024 GAAP net income was $104 million, or $0.8 per diluted share. This compares with prior year GAAP net income of $140 million or $1.06 per diluted share.

Our second quarter 2024 non-GAAP net income was $158 million or $1.23 per diluted share. This compares with prior year non-GAAP net income of $173 million, or $1.31 per diluted share. The foreign currency exchange impact on our second quarter diluted EPS was unfavorable by approximately $0.01 versus the prior year. Adjusted EBITDA for the second quarter of 2024 was $268 million compared to the second quarter 2023 adjusted EBITDA of $279 million, with EBITDA growth expected to accelerate in the second half of the year.

Turning to our second quarter sales results. Global Dental sales were $1.9 billion with sales decreasing 1.7%. LCI sales decreased 2.1% or 1.7% when excluding PPE sales. Global dental merchandise LCI sales decreased 2.6% versus the prior year as the pace of our recovery in merchandise sales following last year's cyber incident, it's taking longer than anticipated.

Regarding dental equipment although our global LCI sales decreased 0.4%, our North American equivalent LCI sales grew 2.9% with solid growth in our traditional equipment category, digital imaging, CAD/CAM, as well as our parts and service business. Overall, digital equipment sales were up slightly from the prior year.

Our international equipment, LCI sales decreased 5.5% and as Stan noted earlier, this was the result of sales decreases in France, Italy and Australia, with sales in other markets in line with last year. Changes in French legislation limiting DSOs negatively impacted equipment investment in France while the overall equipment market in Italy was slow.

In addition, the end of tax incentives last year in Australia and the UK provided difficult year-on-year comparisons in these markets, we expect modest overall equipment sales growth for the remainder of the year in both North America and internationally. Dental specialty product sales were approximately $279 million, with growth of 7.2%, driven by strong dental implant and biomaterials sales in Europe as well as dental data sales globally.

Global Technology and Value-Added Services sales during the second quarter were $214 million with total growth of 10.8%. LCI sales growth of 3.9% included 2.9% LCI sales growth in North America and 10.5% LCI sales growth internationally. In North America, while sales growth is still recovering from the change health care disruption, we had solid growth in our value-added services, revenue cycle management and Dentrix Ascend practice management businesses.

International growth was driven by our Dentally cloud-based solutions. Global medical sales during the second quarter were $1.0 billion with sales growth of 5.0% and LCI sales decrease of 4.3%, reflecting the slower pace of recovery from the cyber incident as well as lower PPE sales as a result of lower global pricing and ongoing migration to generic alternatives for certain branded pharmaceuticals.

Excluding PPE sales, LCI sales decreased 3.6%. Our home solutions business had strong growth, driven by recent acquisitions. As Stan noted, we also benefited the first quarter this year from strong point of care diagnostic test sales driven by flu seasonality.

Regarding stock buybacks, we repurchased approximately 1.4 million shares of common stock in the open market during the second quarter, buying at an average price of $70.64 per share for a total of approximately $100 million.

We had approximately $90 million authorized and available for future stock repurchases at the end of the quarter. An additional $500 million of share repurchases was authorized by our Board of Directors on July 31. We expect to repurchase approximately $175 million in shares in the second half of this year. But this new authorization provides us the flexibility to repurchase more.

Turning to our cash flow. We had strong operating cash flow of $296 million for the second quarter, which exceeded operating cash flow of $274 million last year. Year to date, operating cash flow was $493 million, driven by lower working capital and $192 million more than last year.

Restructuring expenses in the second quarter were $15 million or $0.08 per diluted share and were incurred as part of our previously disclosed restructuring initiative. That specific initiative was completed on July 31, 2024. And these expenses are mainly related to severance benefits and costs related to exiting certain facilities.

As Stan mentioned, we also announced today a new restructuring initiative, we expect to continue over the next 18 months, targeting $75 million to $100 million in annual run rate savings.

Our second quarter GAAP results include $10 million in pretax proceeds as part of our cyber insurance claim. As we have previously mentioned, this policy has a $60 million claim limit on after-tax losses with a $5 million retention. We expect to continue to receive payments over time. The $10 million of proceeds received in the second quarter is not included in our non-GAAP results and is detailed along with other non-GAAP adjustments in Exhibit B of today's press release.

I'll conclude my remarks with our updated 2024 financial guidance. At this time, we are not yet able to provide without unreasonable efforts an estimate of the 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 continuing operations as well as acquisitions that have closed and does not include the impact of potential future acquisitions. Guidance also assumes 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 6% over 2023 versus our previous guidance of 8% to 10% growth. The previous guidance anticipated a stronger economy as well as a faster recovery from the cyber incident. This sales guidance also includes sales from the acquisitions we have completed to date. For 2024, we now expect non-GAAP diluted EPS attributable to Henry Schein to be in the range of $4.70 to $4.82, which compares with previous guidance of $5.00 to $5.16 and reflects growth of 4% to 7% compared with 2023 non-GAAP diluted EPS of $4.50.

This guidance reflects an estimated non-GAAP effective tax rate of 25%. As a result of the timing of implementing our restructuring plans, we expect year-over-year growth in diluted EPS to be higher in the fourth quarter than in the third quarter. Our 2024 adjusted EBITDA is expected to grow in the low double-digit percentages versus 2023 adjusted EBITDA of $984 million and compares with prior guidance have more than 15% growth.

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 investments we have made to execute on our strategic plan. Through the second quarter, our specialties products, technology and value-added services contributed 38.5% of total non-GAAP operating income. We continue to believe that we will achieve our goal of exceeding 40% operating income contribution from these products and services for the full year.

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. So as we lead into the Q&A, I want to reiterate, we are confident in the prospects for our business, even in the face of challenging economic conditions, although we do believe markets are stable. And then we continued to gain market share through the recovery from the cyber incident, which are going in a good direction, but not as fast as we expected when we gave last guidance a quarter ago.

And we're also comfortable that with that we will benefit from the trends in increased specialty procedures. I think we've rounded out with the implant offering we have, we had a big gap. We've got that in place in the United States and Canada soon. And we are also confident that the movement of medical procedures to alternate care settings will continue.

We are generating good synergies, connecting our distribution businesses, specialty products and technology that we added services. While we focus on these opportunities, we're also taking action to increase shareholder value. As we've noted in the restructuring plan, we need to right-sized the restructuring plan.

The sales have not grown as rapidly as we thought. Some of that is attributable to the fact that inflation does not exist at the moment. We believe in our markets very moderate naturally to go down slightly as customers are more price conscious and moving to some alternative brands and own brands. But we think from a gross profit point of view, this will be fine effect may be slightly accretive.

And of course, we will continue to buy stock. We anticipate spending the $500 million. And so with that in mind, please let's answer some questions. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you, Stanley. We will now be conducting a question-and-answer session. (Operator Instructions)

Jon Block, Stifel.

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

Thanks, guys, and good morning. I'll just stick to the same topic Ron, 2024 sales growth expectations down 5% at the midpoint, down from 9%. So, I think we're looking at roughly a $0.5 billion of a step down. Maybe you can just talk about what is that is coming from, call it, the more conservative approach to your distributor recapture versus that of the slower economy that you also allude to in the press release, and I'll just stop there and then I'll ask my follow-up on the same topic.

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

Okay, Jon, and thank you for that question. Let's start with Ron giving you the basics, and I'm happy to fill in further.

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

Certainly, Hi Jon, the -- yeah, from midpoint to midpoint, we came down for four points, right? But it is, the math works to approximately what you have enumerated going back and thinking about our original guidance and our, even our guidance on sales from the first quarter, our Investor Day assumption go back a year and a half ago was that long-term growth for dental was about 2% to 4% in terms of market growth.

And our assumption this year was at the low end of that range. And of course, part of that growth would be coming from anticipated price increases as well. As we've progressed through the year, our view is shifted to more flat year-over-year market growth, which still reflects a stable patient traffic environment. And I think others in the industry have even indicated flat to negative growth in the market, right.

As the pricing itself has also remained fairly flat to the prior year. And we see customers are frequently moving to some lower-cost options, including our own corporate brand, in some cases, which in general is positive for us from a gross profit perspective. Those conditions and you couple that with the company-specific challenge of recovering from the cyber incident, which have been delayed, but are still showing sequential growth quarter to quarter are the primary drivers, so the reduction in our sales guidance, right.

So the fundamentals of the business remain intact. We believe we're once again gaining market share working our way back to pre-incident market share, and we expect that to continue over the balance of the year.

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

Thank you, Ron. I think you covered it quite well actually, if there were any specifics, Jon, or anyone has respect to any particular market, any particular sector, I think we could answer that, that's the broad overview. Thank you.

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

Okay. And just as a follow-up or tack onto that to push you guys a little bit, you talked about the recapture being slower than you had anticipated so far, but you still expect to get this business back? And I guess my question is like why? Why do you still expect to get that business back here?

We are almost 9, 10 months post cybersecurity incident. I would think it's like a hot lead and either you get them back with incentives or they might move, especially if they're episodic to a different platform that they're somewhat content with. So maybe you can talk about your conviction on getting those customers back and the strategy to do so. And thanks for your time.

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

Jon. That is a very important question that I did ask. Look, our sequential month over month reduction of the gap has been quite good. It's going slower. We need to get our field sales force visiting again, the smaller customers, they've been focused on the big ones, and that's been pretty good. They need to focus on the smaller ones, and we need to get our telesales team back into full action.

They had to deal with the fallout of the cyber incident. There were many issues that get resolved, yes, customers okay in the end that will resolve it. But our call centers have been very busy. And only in the last couple of months, actually the last six or so weeks, they're doing outbound calls. So we are well received. It just happened, we happen to have an opening of our new distribution business in Texas and I was with some of our FSC's, field sales consultants who had been -- who many of them have gone back now for the first time into the smaller accounts.

And they reported that the customers are very happy to see them, they just wondered why they were not there in the last couple of months, they were not there because people were focused on dealing with the larger customers and the customers that are the better customers with a $5 billion market wallet from us.

So, we are confident that over time we will continue to gain market share. We are gaining market share from where we left off at the end of '23. It's going to be hard to split exactly what market share growth because of general market share growth, effectiveness of the sales force and what's the result of the recovery. But I think overall, we're confident that we'll be able to continue to gain market share.

And the question is exactly at what pace we've given you guidance of what we expect. And that's really a key fact. I mean, there's nothing more we can add to that. We have a pretty good track record and we expect to deliver what will be of a couple of quarters one way or the other part to give you the exact number, but I think you're asking a very important question.

Operator

Jason Bednar, Piper Sandler.

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

Hey, good morning, everyone. A lot definitely to cover here in the second quarter the balance '24. But I actually want to fast-forward a bit to 2025 and apologies upfront. I'm going to pack a few in here when you've got a lot of moving parts here this year, the story, though, should be a little cleaner exiting this year is we'll have lapped the cybersecurity impact and the PPE headwinds.

Where do you see organic growth for the business once we emerge from all the noise, what's the right underlying growth rate and the margin profile we should be using as a jumping off point as we start thinking about 2025.

And then within all of that, can you give us a bit of color as the phasing of the savings assumed in the restructuring program. It sounds like some of that's coming here in the fourth quarter '24 some of the benefits, but how much of that should be expected be it in the fourth quarter versus the contribution in 2025?

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

Jason, okay, let Ron give you some thoughts on specifics that have been baked into the extent we can give you that information baked into our assumptions. But in general, we believe the consumable market in the United States and Canada is relatively stable.

Yes, there's been a shift I think to more price conscious opportunities. I don't think that necessarily impacts our gross profits. It may depress our sales slightly and we believe we can gain market share on the pure distribution of products. Adding to the profitability, I think continues to be our specialty businesses, in particular implants, bone regeneration, that's material, and we think we are well positioned globally in that area.

We don't really have exposure to China. We're selling very little there. There's going to be ups and downs there, in Asia generally. But the market that we're strongest in is the DACH region in Europe, and I think we're very well positioned. We are, I think, well positioned in the United States, specifically with the implant dentist that is looking for high value for the branded product.

We are hopeful and expect that as the year goes by this year, we will be able to get some market share in that area, I think the endo does for us because implants continues to move in a positive direction.

And the medical business, yeah, there have been some anomalies there, the pharma side, the whole point of care switching between one quarter and another. But I think the movement to the alternate care side, ambulatory surgical center, the homecare, those all positive good ways in which for us to sell our own brands and I think we will recover in that area.

We've done okay. With the large customers, the small ones, the same, as I noted in response to Jon's question, we just have to get our sales force in front of more of those smaller customers, our telesales group, our e-commerce group, I think equipment continues to be an area that we're quite optimistic about in the United States, we did have relatively good equipment growth.

That was an anomaly with scanners, a big sale last year. But generally we're in positive territory at gaining market share. We have some challenges on equipment abroad. We have a big market share in France. There's been a bit of an impact there on some legislation, Italy is not so great. Australia well we had a challenge this quarter because of some tax benefits that lapsed, I think as the year goes by and into '25 we will do well in that market.

And then generally, I think in the equipment market will be okay, we'll grow there as I might add, though, a view on pricing. The dentist are looking at value. I think some of the manufacturers have understood this, others are adjusting, but the average unit price may come down slightly.

But I think the profit will be fine specifically as our clinical workflow initiatives kick in and on the Henry Schein One side and the value-added services side, I think those are all going to be contributors to profitability this year and more in '25. So Ron, I don't know if you have anything that you can share from a macro point of view in your guidance formulation?

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

Yeah, Jason. I will say to you what kind of from a balance of year and then kind of going into '25. We have announced a new restructuring initiative. We do expect as you inferred, we will get some benefits this year mean that we can take some immediate actions that will provide some short-term benefits for us in this quarter as well as next quarter. There will be, I'll call them kind of other more complex actions that I think will take us over the course of 2025 to complete.

I think it's important to note that as we work -- we've done a lot of building on under the B of our Bold+ One Strategy in the last year or so year and a half and there's going to be some integration opportunities there and something that might fly under the radar a little bit this year is that we've also invested this year a little over $200 million in buying out shareholder partners in certain subsidiaries where we had a minority partner.

And this kind of increased ownership also provides us with very good opportunities to combine certain operations for the leverage, our One Schein approach with customers. And so but those,as you can appreciate, are a little more complex, not the kind of thing you can do overnight. So those will likely spill into '25 for some time. But that's the -- that's part of the plan. And that's -- we've baked that into the balance of the guidance, what we think we can achieve this year. And then when we provide '25 our guidance, we'll be able to address that.

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

Okay, right. That's helpful. As a follow-up, I want to shift gears a little bit and discuss what came up on a conference call last week from one of your manufacturer partners. I'm sure you've anticipated this question, but just wanted to see if you can discuss what your position is with respect to the relationship with your manufacturing partners and maybe address the status of your particular agreement with Dentsply Sirona.

When specifically, if you can share, does your contract come up for renewal? And can you discuss how you're proceeding now that you're aware that your main distribution competitor received the nonrenewal notice on their contract?

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

Yeah, Jason, first of all, we have never really spoken about specific relationships with that client. But and because generally it's not a good idea. But yesterday I did have a call with the CEO of Simon of Dentsply, and we confirmed to each other that our relationship is good. I believe we are their biggest customer. They are one of our biggest global suppliers.

We work with them practically in every country. There's one or two that we don't. And they're very important supplier with us. The company has had some management changes over the years, seems like the current management team is in place, understands what needs to get done. I believe that they are working well with our team, yeah, particularly in North America and Canada also in Europe's biggest markets for them - and for us.

It's worked well by the way I think in Germany, France, Spain, UK, in Italy, too. And yeah, they have committed to adding more sales power to the organization, which can only be helpful to us. That products we'd like to get into some of our customers. On the other hand, there are other suppliers that have competing products and we will always do what's best for our customers.

But at the same time, we have strategic relationships. I would view them as one of the strategic relationships. We do not have a formal contract with them. We havea Memorandum of Understanding one way or another. I don't know when it expires or not, and actually it is good to look at that. But in general, it's a good relationship and we have good relationships with all of our suppliers.

And then I'm sure the next question is selling direct. And that rumour has been going around in the industry for years. Specialty products, also direct implants orthodontics, to some extent, endodontics, we need to be in a position to offer the entire offering of all those products. We are in that position today where we had gaps, we couldn't get products.

We entered into the manufacturing, those specialty products we've discussed and we're doing well in the industry, this own brand corporate brand products, and we have manufacturers all ready to provide good pricing that meets the customers' needs.

We're happy to take the manufactures products in where we need to have a private corporate brand. We have that like in any industry. And in general, I think we have good relationships with our suppliers as it relates to this specific issue with a specific distributor that's not for us to comment. So I'm trying to be used as transparent as possible.

Operator

Elizabeth Anderson, Evercore ISI.

Elizabeth Anderson - *Evercore ISI Institutional Equities - Analyst*

Good morning, guys. Thanks so much for the question. I was wondering maybe Stanley going back to what you were mentioning before, could you comment specifically on the growth rate per implant in 2Q, maybe in North America and then specifically, globally and sort of what your expectations are for, particularly for implant for the back half of the year?

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

Elizabeth implants. So the easiest for purest would be Europe. And the biggest market for us is DACH, that is Germany and Austria and a little business in Switzerland. In general, we continue to do very well, we have a complete line. We have an outstanding sales force built over many years. We have what's needed. We are not the biggest player in Europe yet on in Germany on bone regeneration, but we're growing very nicely.

We only entered that market about three or four years ago, but in implants we're doing very well and continue to expect to do well. And in the other European markets, we will continue, I think, to do well. But we have relatively small market share except in France where we're the number one player and with all the challenges in France, just because you're asking such a specific question, I will answer.

But generally we're not going to provide specific information on specific countries, but we are growing in France, our BioTech is growing organically and doing quite well with its implants, I think they are the number one. So Europe is the easiest. As it relates to Latin America, our SIN and new joint venture, although it's viewed as acquisition growth continues to gain market share, fortunately they were not hit by the sad situation in that part of Brazil that got a lot of rain, but overall is doing well.

The BioHorizons part of the equation is a challenge because of a couple of the countries of instability and Latin America, but they were not a participant really in the Brazil market. And our view to Latin America is primarily through SIN. As it relates to the US. Until last year, we were gaining significantly in market share and sales were good. This year the market has been a little bit frozen for us because of our introduction, our customers, our sales force and aware of the new product.

We were supposed to get it around March, April, but we got the FDA approval in the middle of June. It's going to take a little time to fire up, but we are quite confident that we will do well with our new product, which I think is also well received by the DSOs, whether they are -- BioHorizon DSOs or Henry Schein DSOs, bringing the SIN product into the US will also be helpful.

So we did go backwards in terms of our sales, but I'm not sure in terms of market share in the United States, it's hard to tell, data is not readily available. We do extremely well in the bone regeneration fields in the United States, Canada is kind of flattish, that's where we are and I'm quite happy and confident with the progress we're making in the implant arena as well as the bone regeneration materials through.

Elizabeth Anderson - *Evercore ISI Institutional Equities - Analyst*

Thank you for all that covered the color. That was super helpful. Just maybe as a follow up. Can you comment specifically and this is maybe just not just related to implants, but more broadly, how you're thinking about trends in July and should have so far in the third quarter of our days is similar to what you saw in 2Q, better worse?

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

Yeah. I mean, specifically, Elizabeth, I'll address the distribution businesses first, because I think it's probably the most interest to people. We have experienced from Q1 into Q2 growth in our distribution businesses as we recapture some market share. As we said before that recapture has not been as high or as at the pace that we had originally desired.

But we are recapturing share that has continued into July. We expect it to continue for the balance of the third quarter and then of course, into the fourth quarter as well. So that's with distribution. I think with the other products, it's a -- they can be a little choppier you get into the kind of the European holiday season now with distribution there. But I would say within the especially within the US distribution business, we feel very good about, but the ongoing trends there.

Operator

John Stansel with with JP Morgan.

John Stansel - *JPMorgan Chase & Co - Analyst*

Great. Thanks for taking my question. Just wanted to dig in a little bit on the medical side. Can you just speak in a little bit more detail about the effects from some of your larger customers potentially ordering away with the pharmaceutical distributors and then what your expectation is for that return process over the back half? Thanks.

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

Thank you John. Generally, our large customers have come back. We have one large customer that just came back for the pharmaceuticals,hasn't come back, although I think the practitioners are going to ask why. On the other hand, we picked up some larger customers along the way. So, give and take in the areas, not the large customers, I think we're doing okay there.

We're doing okay with the ASCs, perfect. I think we're doing very well with ASCs, we're growing. It's these smaller practices, the terms that are in private practice, they're static people in private practice the ones where our salespeople just have not had time to go back. And our telesales people have been mostly focused inbound but have now been focused externally to -- excuse me.

So overall, I think the recovery is good. It's not quite as fast as we wanted, but it's under pressure as we noted in the price of injectables as the market moves generic I think there's a movement also to corporate brands in medical and the whole point of care diagnostics slips from one quarter to another, including flu vaccine shipment.

John Stansel - *JPMorgan Chase & Co - Analyst*

And then just on the potential kind of the shift towards own brands that you've called out here. Is that embedded in your guidance? Does that kind of persist through the back half? And that's the kind of more sticky shift to private label brands for you? Or do you expect that to revert at some point?

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

Yeah, we are taking a look at the run rate on corporate brands in January, and it is considered in our guidance. It's a little difficult to talk to it in broad terms because we are still seeing a little bit of price pressure on gloves and gloves is a very important company brand for us. So but outside of gloves, we're seeing relatively good demand because there is -- there does seem to be a greater kind of cash around cost in the customer base right now.

Operator

And the next question comes from the line of Amit -- my apologies. Dean Reinhardt, Baird.

Dean Reinhardt - *Baird - Analyst*

Hey, guys, thanks for taking the questions this morning. I guess just wanted to kind of follow up even on John's first question here. I mean, I thought last quarter you guys had kind of touched on a 96%, 97% recapture rate in the distribution business. And I guess if you're kind of trailing your original expectations, were you, kind of already expecting to be back at 100%. And then is there any variation in there between your medical and dental.

And then I guess just last one to follow up on that within the dental business, I mean, if you are recapturing a slightly greater percent of that lost share from last year. I mean, it seems like on a comp adjusted basis, your North American distribution business did kind of slow with merchandise. So is there anything else in there I mean, you mentioned patient volumes kind of flat. So has that mix shift to kind of lower priced brand adoptions really accelerated here more meaningfully than what you were expecting?

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

Hi, Dan. It's Ron. It's this is where it gets a little fuzzy because it is difficult to assess. Like you said, we based on ship tos and based on the data we had we you get a feel for the so-called recovery from the cyber. Those customers are very sporadic, though they're very episodic with their purchasing habits and some of the recapture, you might not see again for a while, then you get somebody else.

So they have not been as consistent. And that's where it gets kind of difficult to put a number behind the actual percentage of recapture there. For us is important that we not only focus on recapturing our old customers, but also gaining other new customers. So the focus of the business really is on gaining market share, whether it be former customers or new customers that's really the focus of the business as it should be under the ordinary course of business.

And in terms of what we're seeing in dental and medical, I would say that the effect has been is relatively the same across the two, I don't think it's slightly -- it could be a little more accentuated with dental, but I would say would only be slightly more in terms of that, that so-called recapture rate and again, we have to use a lot of assumptions to determine what is that real recapture rate, right.

And I forgot the last part of your question. You had a three-part question.

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

Yeah, sorry, I think like on a comp adjusted basis, your growth in North America distribution, consumables, dental seem to slow a little bit. So is that just reflective of the more shift to the lower price branded consumables products.

And then I'll just kind of add my last one here. I mean, I think with the EPS guide, I think your midpoint for the back half of the year is kind of in that 2 to 4 range. And I think historically your second half EPS tends to be around 49% to 50% of the full year. So just how do we think about that kind of of 2 to 4 back half guide and think about that for a jumping off point for next year? Thanks

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

Yeah. So in terms of the back half guide, it does we expect to maintain the momentum we have in terms of recapture of market share, although again, not at the pace we had originally anticipated, but we anticipate regaining and gaining market share into Q3 into Q4, and that will help drive some of that increase.

We also expect the back half of the year to be better in specialty. We have the new product launch in North America on the implant. We also we do expect special to do better and we expect that technology business bounce back a little better in the second half as well. So all of those would be contributors to that.

In terms of your question around a brand. I do think that we are seeing, like I said, we see some move towards corporate brand. Those are better margins for us. It doesn't quite show up on the top line. So it does help contribute a little bit for some of that gross margin favorability you see out there.

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

Let me -- Ron thank you. Let me just add one other thing. The larger accounts are growing at a faster rate than the very small. The larger ones are more conscious of alternative brands where they can get better pricing. As I noted earlier on, it's not bad for our gross profit, it's actually quite good.

So just because large customers are growing at a faster rate than the smaller ones, alternate options of brands that feature to a greater extent in the right buying patterns of our large customers. And this is shifting to certain manufacturers, auto manufacturers that are prepared to give price discounts for large contracts -- larger contracts, and it does depress our sales a little bit, but certainly good for gross profit. Okay. Got it. Yes.

Yeah, so we are now four minutes late. Let me end by thanking everyone for participating. I realize it is a complex quarter from a math point of view. Ron, Graham, Susan are ready to meet with you of course, I will make myself available as well. The business is solid. It's been that way for decades. Have we had bumps along the way, yes we have that the cyber incident before that we had the COVID period like 2008/'9.

We had some challenges also because of the economy doesn't feel like it's as bad this time, but we have to make sure that we respond accordingly. Although our sales are not what we wanted them to be from the economic point of view, I think there's a little bit more shopping on price and I think it's between us, necessarily our competition between brands.

We can -- I think cover that well, whether it's on the consumables or the equipment side, and we just have to make sure that our expense structure matches our gross profit, so we can continue to grow gross profit and continue to grow our operating profits pretty good at executing on this will begin right by month. I'm not sure I don't think so, but we will get this in the medium to long term.

So, confident in the business and feel very good about our strategic direction. We will give you more information on the '25 to '27 strategic plan. It's just being finalized, not a change, but it's going to be an emphasis and maybe a lightening up of certain parts of the business and a heavy emphasis on other parts will give you that information.

But we are pretty comfortable with the business, very pleased with our senior management team, our management team in general, and again remain optimistic and we gave you our best ideas on where companies go from a mathematical point of view. And this team has delivered in the past and we very comfortable that it's the same team, lots of succession, but the team in place has been around for a while.

Many functions removed because of retirement. People moved up. Ron, Graham done a good job in that area and in the businesses in general. So I thank you again, and the team is ready to take questions just reach out to them and they will scheduled time with you. Thank you very much, everyone.

Operator

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