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EDITED TRANSCRIPT

HSIC.OQ - Q3 2026 Henry Schein, Inc. Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Henry Schein's third quarter 2026 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 thanks to everyone for joining us this morning to discuss Henry Schein's financial results for the third quarter. With me on today's call are Fred Lowery, Chief Executive Officer; Ron South, Senior Vice President and Chief Financial Officer; and Emmanuel Caprais, who will succeed Ron as Chief Financial Officer effective tomorrow, November 4th.

Before we begin, I'd like to state that certain comments made during this call will include information that is forward-looking. Risks and uncertainties involved in the company's business may affect the matters referred to in forward-looking statements and the company's performance may materially differ from those expressed in or indicated by such statements.

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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 analyses and estimates.

Today's remarks will include both GAAP and non-GAAP financial results. We believe the non-GAAP financial measures provide investors with useful supplemental information about the financial performance of our business, enable the comparison of financial results between periods where certain items may vary independently of business performance and allow for greater transparency with 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 the exhibits of today's press release and can be found in the financials and filings section of our Investor Relations website under the Supplemental Information heading and in our quarterly earnings presentation also posted on our Investor Relations website.

The content of this conference call contains time-sensitive information that is accurate only as of the date of the live broadcast, November 1, 2026. 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 so that we can accommodate questions from as many of you as possible. And with that, I'd like to turn the call over to Fred Lowery.

Frederick Lowery - *Henry Schein, Inc. - Chief Executive Officer*

Thank you, Graham, and good morning, everyone. Before turning to our results, I'd like to welcome Emmanuel Caprais, who will become Henry Schein's Chief Financial Officer effective November the 4th. We're really excited to have you on the team.

I'd also like to recognize Ron, who has played instrumental roles at Henry Schein over nearly two decades, including the past four years as CFO. Ron has demonstrated authentic leadership and disciplined stewardship throughout his tenure, and his contributions have built a solid foundation for our future.

He'll be staying on as a senior advisor working closely with Emmanuel to ensure a smooth transition. Ron, thank you again for your leadership and your tremendous contributions to Henry Schein. And on a personal note, I would say a big thank you for how you've helped me onboard into the company. Now before we move to results, Emmanuel, would you like to say a few words?

Emmanuel Caprais - *Henry Schein, Inc. - Upcoming Chief Financial Officer, Senior Vice President*

Thank you, Fred. I'm very pleased to join Henry Schein and excited about the meaningful opportunities ahead to drive growth, expand margins and create long-term shareholder value. I greatly appreciate the warm welcome I received from Team Schein members over the last few weeks and have valued the opportunity to begin engaging with colleagues across the organization.

I look forward to partnering with Fred, the leadership team and Team Schein members and I want to thank Ron for his support throughout the transition. I also look forward to engaging with many of you in the investment community.

Frederick Lowery - *Henry Schein, Inc. - Chief Executive Officer*

Thank you, Emmanuel. Now turning to our results, we delivered another strong quarter that increases our confidence in the momentum we're building at Henry Schein. We're gaining share, expanding margins and delivering strong underlying earnings growth. Here are a few highlights from the quarter.

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US Dental Merchandise sales grew 8.6%, including 7% internal local currency growth driven primarily by volume in a stable market. Excluding the net benefit from tariff refunds this quarter and the prior year remeasurement gain, adjusted non-GAAP diluted EPS increased 19.1% to $1.37.

We expanded non-GAAP operating margin by 20 basis points in the quarter. And we repurchased $125 million of Henry Schein stock, bringing the year-to-date repurchases to $450 million and reflecting our disciplined approach to capital allocation.

I'm very pleased with the US dental merchandise sales growth of 8.6%. We're winning new customers, expanding our owned and exclusive products and executing a share of wallet and growing our company-owned effectively through our sales organizations. At the same time, we're seeing growing financial benefits from our value creation initiatives.

Our commitments have not changed and we continue to expect more than $200 million of operating income improvement, including a $125 million run rate by the end of 2026. Together with a more attractive business mix and greater operating discipline, these initiatives are helping us convert growth into stronger earnings performance.

We are therefore raising our financial guidance for the year, reflecting the net benefit of tariff refunds received during the quarter, targeted and limited growth investments in the fourth quarter, which will contribute to growth in 2027 and improved underlying business performance.

My initial priorities coming into the role were clear. Execute against our 2026 financial plan, deliver our value creation commitments and invest selectively to accelerate growth. And we're making strong progress. Our agenda remains focused on accelerating growth, simplifying the business and bringing greater rigor and discipline to execution.

So let's start first with accelerating growth. We continue to invest in those areas where we see the greatest opportunities to gain share and deepen our customer relationships. The results we're seeing have increased our confidence in several growth initiatives.

We have therefore made the deliberate decision to make some limited incremental investments in the fourth quarter focused on winning new customers, increasing our share of wallet and converting more episodic customers into long-term Henry Schein customers.

Our objective is to build on the share gains that we're already achieving. New product development is an important part of our growth expectations particularly across company-owned products and practice management software. For example, our recently launched Versalis implant positions us well in the fast-growing value implant category.

More suppliers are also choosing to offer exclusive products and promotions through our distribution channel, underscoring the differentiated value of the Henry Schein platform. Our investments in Henry Schein One, which is our market-leading technology business, continue to drive accelerated growth in our cloud-based practice management platforms as we embed AI-enabled capabilities that improve workflows, improve collections, patient engagement, and overall practice performance.

These capabilities help dental practices by identifying revenue opportunities, automating administrative work and improving clinical and operational workflows. This is particularly valuable as practices manage labor constraints and rising operating costs. In our Medical business, we remain focused on attractive areas of growth, including our Home Solutions business, where we delivered double-digit growth in the quarter.

Our second priority is simplifying the business. We are reducing organizational complexity, getting closer to the operations and speeding up decision-making. We have continued to delayer the organization, establish our executive team and align decision-making more closely with our operating businesses.

By advancing shared services, centralizing selected activities and driving greater collaboration, we're making it easier for our customers to work with us. We are outsourcing selected functions, advancing shared services, centralizing indirect procurement and building stronger pricing and margin management capabilities.

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Our focus is ensuring that our operating income improvements we've committed to deliver are realized in the P&L and that they build over time. Additional initiatives are being prioritized based on impact and return, including further portfolio streamlining, shared services and outsourcing, AI capabilities and supply chain tools designed to improve efficiency, reduce inventory and simplify processes.

Simplification should make us faster, more consistent and more effective at converting top-line growth into bottom-line growth. Our third priority is bringing greater rigor and discipline to our execution. This includes prioritizing investments and resources toward those areas with the greatest potential to drive sustainable growth and returns.

It also applies to capital allocation, where we're taking a disciplined approach that balances investments with returning capital to shareholders. This discipline is particularly important in an environment that can change quickly and like most businesses, we're experiencing inflation in our cost of goods sold, which we are successfully offsetting through productivity initiatives, strategic pricing and lower price equivalent products, including our company-owned brands.

Our customers increasingly need an integrated partner that can simplify practice management and we are uniquely positioned to deliver that breadth of solution at scale. Now let me turn to our business performance and what we're seeing in the market.

As I mentioned earlier, we achieved excellent growth in our US dental merchandise sales in the third quarter with 8.6% total sales growth, 7% local currency internal growth. Importantly was it was driven primarily by volume rather than price and particularly among private practices and emerging DSOs.

We believe this reflects continued market share gains from our own brand portfolio and from exclusive products such as Curodont. This also reflects growth in our active customers and share of wallet and strong sales execution by our Team Schein members.

Based on what we see across our customers and the business, the overall US dental market remains steady and patient traffic was stable during the quarter. Consumable sales for routine procedures are steady, demand for traditional equipment remains healthy and DSOs continue to be an important source of growth.

We are seeing some pressure in discretionary procedures where patients can be more selective to out-of-pocket costs and they may choose to defer treatments. We're watching these trends closely, but they do not materially affect our current growth expectations.

US dental equipment sales growth was solid. Consolidation among small and emerging DSOs remains an important driver as office expansions support greater practice efficiencies. Our scale and exclusive sponsored promotions and the quality of our service technicians and our sales teams provide meaningful competitive advantages.

As we look to the fourth quarter, we're encouraged by the continued strength in our orders, which remain ahead of prior year levels. International dental trends in both merchandise and equipment remain stable, with particularly good growth among DSOs.

The US medical market continues to benefit from procedures moving out of acute care into alternate care settings and to home care. At the same time, we're seeing fewer primary care visits related to respiratory illness.

US medical sales growth remains healthy despite declining market demand for point-of-care diagnostic tests and lower flu and COVID-19 vaccine sales this quarter. Home Solutions continue to deliver double-digit growth and, looking forward, we expect an early 2026-2027 US flu season to support better medical growth in Q4.

Turning to global specialty products, it also grew well. In Europe, the implant market remained steady, and we achieved good growth in both premium and value implants. In the US, despite the softer market, implant sales grew well, driven by our S.I.N. 360 value implants.

Brazil remained a headwind given the challenging macroeconomic and political environment due to elections. Our global technology again delivered good growth led by our cloud-based platforms and our new AI-enabled solutions.

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Underlying growth was in line with prior quarters but was partially offset by a difficult comparison with the prior year Windows 10 end-of-life support revenue. We expect fourth quarter sales growth to be in line with the first half of this year.

Almost 13,500 customers now subscribe to our Dentrix Ascend and Dentally cloud-based platforms, and we're adding approximately 200 net new customers per month with demand primarily coming from private practices and emerging DSOs.

Our technology business continues to deliver good underlying growth as we invest in product development and innovation. This is driving increased adoption of our cloud-based solutions and conversions to our advanced packages, that is Ascend Pro and Ascend Accelerate, which include AI-enabled clinical documentation, insurance eligibility, claims and collections, diagnostics and treatment capabilities and integrated imaging.

Overall, our third quarter performance demonstrates that the strategy is translating into stronger financial results. Specifically: Businesses with higher growth and margin profiles are projected to be 50% of total operating income in 2026, making important progress toward the portfolio mix that we've been building. We remain focused on increasing the contribution from businesses with higher growth and higher margins and return characteristics. Our value creation plan is contributing to the results and our commitment remains unchanged.

We're also strengthening operating discipline across the organization to focus on translating revenue growth into stronger earnings growth. And our capital allocation also remains an important part of that value creation framework. Share repurchases are an established and ongoing component of our capital allocation strategy alongside disciplined investment in the business.

Taken together, we're gaining share in key businesses, improving our portfolio mix, maintaining a disciplined approach to capital allocation and realizing the benefits of our value creation initiatives to drive our financial performance.

We remain fully committed to delivering those value creation objectives while selectively investing behind the growth opportunities producing the strongest returns. That combination strengthens our confidence and our ability to translate revenue into sustainable earnings growth. And with that, I'll turn it over to Ron to review our third quarter results and our updated 2026 guidance in more detail.

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

Thank you, Fred, and good morning, everyone. Before I review our financial results, I'd like to take a moment to express my appreciation to everyone at Henry Schein, including our finance team and to the many colleagues, the team I've had the privilege of working closely with over the years.

I'm incredibly proud of what we've accomplished together and grateful for the dedication, partnership and support I've experienced throughout my time at Henry Schein. I know I'm transitioning an exceptional team over to Emmanuel and I have great confidence in both the team and Henry Schein's future. It's been a privilege to serve as CFO, and I want to thank everyone who has been part of that journey.

Moving to our third quarter results. We were pleased by the growth in the business. As showed under Exhibit D of today's press release, excluding the net benefit from tariff refunds this quarter and a remeasurement gain in the prior year, our results reflect underlying adjusted non-GAAP earnings growth of 19.1%.

Global sales were $3.5 billion with total sales growth of 4.0% compared to the third quarter of 2025. This reflects local currency internal sales growth of 3.1%, a 0.2% increase resulting from foreign currency exchange and 0.7% sales growth from acquisitions.

What stood out especially in the quarter was the 7% local currency internal sales growth in our US dental merchandise sales driven primarily by volume from market share gains. Our GAAP operating margin for the third quarter of 2026 was 5.57%, an increase of 69 basis points compared to the prior year GAAP operating margin.

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On a non-GAAP basis, operating margin for the third quarter was 8.03%, up 20 basis points compared to the prior year. Third quarter 2026 GAAP net income was $119 million or $1.06 per diluted share. This compares with prior year GAAP net income of $101 million or $0.84 per diluted share.

Our third quarter 2026 non-GAAP net income was $175 million or $1.56 per diluted share. This compares with prior year non-GAAP net income of $167 million or $1.38 per diluted share. The foreign currency impact on third quarter diluted EPS was immaterial.

On an EPS basis, the net benefit from tariff refunds in the quarter was $0.19 per diluted share, which is included in our GAAP and non-GAAP results. We did not record any remeasurement gains in the third quarter of 2026 as compared to a remeasurement gain of $0.23 per diluted share in the third quarter of 2025.

Finally, adjusted EBITDA for the third quarter of 2026 was $321 million, compared with third quarter 2025 adjusted EBITDA of $295 million, reflecting growth of 8.7%. The components of third quarter sales growth are included in Exhibit A of this morning's earnings release.

I'll highlight the primary drivers for each reporting segment. Global distribution and value-added services group sales grew by 3.7%, driven by growth in global dental merchandise sales. Looking at the components of that growth, US dental merchandise sales grew 8.6% with local currency internal sales growth of 7% as growth continued to accelerate.

Performance was primarily driven by increased volume from market share gains. Growth in our company-owned products continues to significantly outpace branded products. US dental equipment sales grew 1.6% driven by growth in traditional equipment, partially offset by a decline in digital equipment sales.

Our equipment backlog remains healthy and we expect US dental equipment growth to continue in the fourth quarter. US medical sales grew 1.0% as lower sales of point-of-care diagnostic products and vaccines were offset by solid growth in our core medical business and 11.4% sales growth in home solutions.

When excluding point-of-care diagnostic tests and flu and COVID-19 vaccine sales, our US medical sales grew in the low to mid-single-digit range. International dental merchandise sales grew 5.4% with 3.3% local currency internal sales growth.

International dental equipment sales grew 2.9% with 3.2% local currency internal sales growth. Internal dental merchandise and equipment sales growth were especially good in Brazil, France, Spain, Australia and Canada.

Note that equipment sales growth in Germany was affected this quarter by a difficult prior year comparison related to the timing of the biennial international dental show in Germany in 2025. Finally, global value-added services sales declined 4.8%, primarily reflecting lower brokerage revenue where sales can be lumpy from quarter to quarter.

Turning to the global specialty products group, sales grew 6.1% with 3.4% local currency internal sales growth. Sales growth was driven by value and premium implants in Europe as well as value implants in the US, partially offset by headwinds in Brazil.

Our global technology group sales grew 5.2% with local currency internal sales growth of 6.5%. Growth was driven by Dentrix Ascend and Dentally, our cloud-based practice management platforms, as well as good growth in revenue cycle management, supported by increased claims volume. Internal sales growth slowed slightly from the second quarter due to a challenging prior year comparison, and we expect growth in the fourth quarter to return to the pace we saw earlier this year.

Turning to our restructuring program, the company recorded restructuring expenses of $22 million or $0.14 per diluted share during the third quarter of 2026 as we continue to advance our current restructuring program and value creation initiatives.

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Our value creation initiatives remain on track. We continue to expect more than $200 million of operating income improvement, including a $125 million run rate by the end of 2026. These benefits are contributing to margin expansion and underlying earnings growth and our fourth quarter investments did not change these commitments.

Regarding share repurchase activity, during the third quarter of 2026, the company repurchased approximately 1.4 million shares of common stock at an average price of $86.67 per share for a total of $125 million. At the end of the quarter, we had approximately $330 million authorized and available for future stock repurchases.

Turning to our cash flow. We generated operating cash flow of $161 million in the third quarter of 2026. Our operating cash flow is strong and in line with the prior year, and we continue to expect operating cash flow to exceed net income for the full year.

Turning to our 2026 financial guidance. At this time, we are not able to provide without unreasonable effort an estimate of restructuring costs related to ongoing value creation initiatives. Therefore, we are not providing GAAP guidance.

Our 2026 non-GAAP guidance is for current continuing operations and does not include the impact of restructuring expenses and related costs and other items described in our press release. Our 2026 total sales growth expectations are unchanged at 4.5% to 5.5% over 2025.

We now expect 2026 non-GAAP diluted EPS attributable to Henry Schein Inc. to be in the range of $5.50 to $5.56 compared to prior guidance of $5.29 to $5.39. We are raising this guidance to reflect the net benefit from tariff refunds recognized in the third quarter, targeted and limited growth investments in the fourth quarter which will contribute to growth in 2027, and improved underlying business performance.

2026 adjusted EBITDA is now expected to grow in the high single-digits versus 2025 adjusted EBITDA of $1.1 billion. This guidance assumes no significant additional tariff refunds or remeasurement gains for the remainder of 2026.

Our guidance also assumes foreign currency exchange rates will remain generally consistent with current levels and we are assuming an estimated non-GAAP effective tax rate of approximately 24%. With that, I'll now turn the call back to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Elizabeth Anderson, Evercore ISI.

Elizabeth Anderson - *Evercore Inc. - Analyst*

Hi. Good morning, guys. Thanks so much for the question. Great working with you, Ron, and welcome, Emmanuel. I had a question. I'd like to double-click a little bit on the share gains that you called out in US dental consumables. Can you talk about sort of the product categories, what that is? And then can you just confirm for us how the tariff refunds flow through the P&L? Thank you very much.

Frederick Lowery - *Henry Schein, Inc. - Chief Executive Officer*

Yeah, thanks for the question. I'll take the first part and I'll let Ron take the second part. The 8.6% growth of 7% internal local growth is really strong for us in the US and we feel great about the fact that it's more volume versus price, so heavily volume weighted, which shows we're gaining share. The particularly interesting part is we're gaining share in private practice and emerging DSOs versus just large DSOs, which

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says we're making good progress. When I look sequentially from Q1 to Q2 and Q2 to Q3, we got better every single quarter. So that's really an exciting part of the growth there.

What's really driving it is, when I look at our corporate brands, we're seeing growth in our own brand products, both our private label and other own brand products, we're seeing growth in our exclusive products like Curodont. And then we're actually just executing well from a commercial standpoint.

Our commercial teams are driving really great programs and great promotions and building deeper relationships with customers. I think it shows up, as I said before, in the private practices.

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

And Elizabeth, in terms of the tariff refund flow through the P&L, so we had about $28 million benefit that's flowing through cost of goods sold, about 20% of that is in the distribution segment and 8% of it is in the specialty segment.

We also have a couple of million dollars of offsetting OpEx related to that that's also going through the P&L and then call it roughly you get a little bit of interest income on these refunds as well and we have about $1 million or so of interest income from it.

Operator

Jeff Johnson, Baird.

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

Thank you. Good morning, everyone, and Ron, congrats on the retirement. I'm a little jealous at this point, but good luck to you in the future. So, I guess for Fred or Ron, either one, just wondering if I could ask a two-part question on guidance, implied in the fourth quarter EPS growth somewhere in the 3% to 4% range. I think, Fred, when you and I last talked at our healthcare conference, you kind of committed to double-digit EPS growth moving forward.

So talk about maybe some of those targeted investments you're planning in 4Q, how much of that 3% to 4% instead of double-digit might be end markets a little bit of pressure here with the macro versus those investments versus conservatism, just how to think about that 3% to 4%?

And then as I think about the tariff refund that helped by $0.19 this quarter, I would assume that double-digit EPS growth, if you're still comfortable with that moving into next year, is kind of on an ex-tariff refund basis, the Street is hanging out at just under $6, your guidance this year now sitting a little above $5.50 or just above $5.50 at the midpoint.

I would assume you don't want us to put double-digit growth on top of that given that tariff refund is adding $0.19, but help us out conceptually thinking about 2027 even though I know you're not guiding there at this point.

Frederick Lowery - *Henry Schein, Inc. - Chief Executive Officer*

Yeah, that last point is really important. Thanks for the question. Important to note, we're not giving guidance today, but let me just maybe take a step back. Since we started value creation, every quarter since then, we've actually seen double-digit EPS growth and we feel great about having a double-digit EPS growth for the full year of 2026 and we're committed to our value creation commitments that we made in the past of a $125 million run rate at the end of this year, which implies that we're building toward double-digit EPS growth next year. As it

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relates to the investments that we're making, some target limited investments really behind where we're seeing really good growth. And we'll continue to do that.

Going forward that it should help us from a growth standpoint, not just in Q4, but in 2027 as we continue to take share and build close relations with customers. But I'll let Ron answer the balance of the question here.

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

And Jeff, I think regarding your point on the fourth quarter growth, something I just want to point out and just as a reminder. The fourth quarter last year did have a remeasurement gain of approximately $0.06 of EPS benefit that won't repeat this year.

So when looking at the growth, it's important to normalize for that when looking at the year-over-year impact of the estimates that you're coming up with based on our guidance versus the prior year at this point.

Operator

Jason Bednar, Piper Sandler.

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

Good morning. Thanks for the questions. And Ron, I'll just echo, it's been a pleasure working with you. I wish you all the best and Emmanuel welcome and looking forward to working with you. Wanted to first hit on, I guess, the US dental merch growth, really impressive number, clearly taking share, seems like a byproduct of a lot of initiatives you've put in place here, Fred and Ron.

My question, though, Fred, is hoping you can bifurcate growth a little bit more between volume and price. You've emphasized a few times here already today that volume was that primary driver, which I think is a little bit of a shift from the message last quarter where growth was a bit more balanced between volume and price.

So just unpack the growth contributions a bit more and then has anything changed on the pricing dynamics over the last few months because it's really good to see that the volume is picking up here.

Frederick Lowery - *Henry Schein, Inc. - Chief Executive Officer*

Yes, thanks for the question. Let me try to give you just a little bit more context here. We're seeing primarily volume, which I think in the past we've seen primarily price. And so that says to me that we're taking more share and when I look at the market, it clearly is stable but, for our customers the market actually we're seeing growth in the market.

So that means our customers are growing faster, that means our algorithm is working by selling more of our company brands into those customers and we're helping our customers see more customers and see more patients.

So it is truly primarily volume, mostly volume, if that helps from a contextual standpoint. And then just on the inflationary standpoint as it relates to price, we're still getting good price. We're getting good prices covering any inflation that we're seeing and we're able to still either drive more price where it's appropriate or help our customers use different products or equivalent products that maybe are a lower price but higher margin for us.

So that algorithm is working and I think we will expect it to continue and we don't have any concerns about being able to cover inflationary pressures in Q4.

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Operator

Jon Block, Stifel.

Jonathan Block - *Stifel Nicolaus & Company Inc - Analyst*

Good morning. Maybe just to kick things off, is there a way to frame the amount that value creation will contribute in 2026 on a net basis? I'm trying to go in there because that might help us with the incremental for 2027 when we're considering the $125 million run rate exiting this year.

So again, what's the contribution from value creation this year in '26? And then sorry, just a follow-up on that prior question from Jeff, because I think we all want to sort of get some clarity here. There has been the talk about double-digit earnings growth. So again, are we putting like a double-digit number to the $5.53 midpoint for 2027 or are we stripping the $0.19 and arguably putting that double-digit on a normalized, if you would, I don't know, $5.34 number? Thanks, guys.

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

Hey, Jon, I'll start with the value creation piece. Like Fred said, we remain committed to delivering ultimately the $200 million in operating income improvements and that includes the $125 million run rate that you referred to when exiting 2026.

Any of that in-year benefit that we've gotten so far is obviously included within our year-to-date results now and we've also included it within our full year earnings guidance. So it's a driver, that in-year benefit is a driver of the current year growth and ever since we initiated these initiatives starting in late '25, we've delivered double-digit growth each quarter in 2026 and we continue to and we expect to deliver the double-digit growth for the full year of '26.

So I think the important thing here is these are scalable and sustainable activities we're taking and they give us confidence that we'll be able to continue to achieve double-digit earnings growth as we go into '27, and beyond in terms of the math in '27, and as it relates to tariff refunds.

We'll take all that into consideration when we provide '27 guidance. I don't want to put words in Emmanuel's mouth on his third week, but I think that's something that we'll take into consideration and I think you can trust that we believe the underlying operations of the business is going to continue to deliver double-digit growth.

Operator

Erin Wright, Morgan Stanley.

Erin Wright - *Morgan Stanley - Analyst*

Can you talk a little bit about the innovation and just the overall market dynamics that you're seeing across implants right now, particularly across the value segment, the demand trends that you're seeing across geographies?

And then just quickly, just on the medical side of the business, you mentioned that being a benefit or maybe a little bit of a pull forward there, how much of that is benefiting the 4Q guide or how material is that for you?

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Frederick Lowery - *Henry Schein, Inc. - Chief Executive Officer*

Yeah, so just on implants, we're excited about our implant business and I look at our implant performance in Europe. In particular, we're seeing really good growth in both the premium and the value implant segment in the US, we're seeing really great growth. In our S.I.N. 360, which is our value implant, I mentioned in the prepared remarks that we just launched our Versalis product which we think is going to continue to drive more growth into that segment. So we're quite excited about that. The real headwind for implants is coming out of Brazil, which we think is really tied to the political environment there tied to the election. So overall, we will feel really great about implants. We think the value implant segment is going to continue to grow. Innovation is a big part of that and we're excited about the portfolio that we have in place. Ron, do you want to take the second part?

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

Yes, Erin, were you asking in terms of the impact of new products on the guide to make sure I understand your question?

Erin Wright - *Morgan Stanley - Analyst*

Well, yeah, innovation across implants, which I think he addressed and then also in the flu season with medical and how much of a pull forward?

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

Yeah, I mean, the impact of the timing of flu season is something that we've contemplated within that sales guidance. I mean, medical was a little lighter in the third quarter than I think originally expected. As we mentioned in the prepared remarks, it was really driven by continued softness in the point-of-care diagnostic kits primarily as well as a little less demand this year for vaccines than what we saw in the prior year. But I think in the fourth, we're holding to that, our full year revenue guide and I would expect that we would have some benefit from the timing of flu season in the fourth quarter.

Operator

Allen Lutz, Bank of America.

Allen Lutz - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Good morning and thanks for taking the questions. I want to follow-up on the value creation initiatives here. Were the operating income improvements in 3Q across both gross margin and OpEx in line with expectations or did any fall into 4Q?

And then to follow-up on a prior question, how back-end loaded is that exit rate of $125 million exiting the fourth quarter? So, for example, is there a significant amount of cost that goes until December 31st and then up on the first of January, trying to figure out if there's any way to frame that.

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

Hi, Allen, I'll start on this one. I would say that the benefits we got in the third quarter were very much in line with our internal expectations, both from a gross profit perspective as well as on the G&A. Just by their nature, especially the G&A, you do get kind of ongoing benefits as you get into further into the year.

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Some of the initiatives that we're completing during Q4 or even starting during Q4 because these will continue well into '27, if not into early '28. So we're going to continue to get some benefits from that. But I think most importantly, like I said before, these are scalable and sustainable activities that we're putting in place that should continue to provide earnings growth for us going forward.

Operator

John Stansel, JPMorgan.

John Stansel - *JPMorgan Chase & Co. - Analyst*

Great. Appreciate taking the question. Just on traditional equipment, sounds like the backlog still remains robust, but can you talk about how activity has trended? In the backlog, new orders coming in, dentist appetites to investment practices over the last month or two? As it progressed?

Frederick Lowery - *Henry Schein, Inc. - Chief Executive Officer*

Yeah, thanks for the question. I would say on the traditional equipment, the backlog is strong. When I look year-over-year, the backlog is up, quarter-over-quarter it's up, which traditionally we see a little bit of a bump in Q4 anyway, but the backlog looks strong and activity is strong. So when we look at our order rates, we feel good about continuing to see growth in traditional equipment in Q4.

Operator

Kevin Caliendo, UBS.

Kevin Caliendo - *UBS AG - Analyst*

Good morning, thanks for taking my question. I have two. One is you just asked about equipment, but what about de novo plans from any of your DSOs? Has that flowed in any way, shape or form? Given some of the tumult in the markets and the like, just wondering how that's trending and if that would be considered a headwind or anything for '27?

And then just on the $0.19 question, because I've gotten 11 people that beg me to ask you to ask again, should we consider tariffs part of like regular course of business or one-time in nature? I know you non-GAAP and GAAP it at the same time, but just, everybody wants to figure this out. I'm asking it in a different way.

Frederick Lowery - *Henry Schein, Inc. - Chief Executive Officer*

Yes, the question just on de novos, we're not seeing any change in activity level as it relates to de novos. If anything, we're seeing really strong growth with emerging DSOs in particular, but we're still seeing good growth with larger DSOs. So there's no change that we're seeing as it relates to de novos.

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

And Kevin, your question regarding the $0.19, you were asking GAAP versus non-GAAP on that?

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Kevin Caliendo - *UBS AG - Analyst*

Yeah, I'm just I mean, we're just trying to understand if we should assume it's part of the baseline, that's all. I mean, everybody wants to understand this question I'm trying to ask you.

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

Yeah, we elected to not adjust it, I get that. We elected to not adjust it for non-GAAP purposes for a couple of reasons. One is most in the industry aren't. And two, we have it as a refund of a cost that we incurred earlier that we didn't non-GAAP when we incurred that cost.

So it's kind of a like-for-like type of comparison. Obviously, it's the type of benefit that's difficult to repeat period to period. So to the extent we believe it's a relevant factor when talking about growth, we'll be sure to isolate it so that people are reminded of it.

Frederick Lowery - *Henry Schein, Inc. - Chief Executive Officer*

I would just add to that, just to close that point out. As we think about the value creation that we're delivering, the growth that we're seeing in the business, we're committed to doubling down in areas where we're seeing success from a growth standpoint.

We really have a lot of conviction around the underlying performance in the business. That will help us get to double-digit EPS growth in 2027. So we're not at all walking away from that. I just don't think we should just make that point and be really explicit about it.

Operator

Michael Cherny, Leerink Partners.

Michael Cherny - *Leerink Partners LLC - Equity Analyst*

Good morning, and thanks for taking the question. And yes, Ron, best of luck in what comes next to you once you retire. Maybe another way to dive into some of the investments you're making on the growth side, how are you measuring yourself across the success of the growth investments? You talked about targeted opportunities to gain share.

Should we think about this as a recurring dynamic where the more share you gain, the more opportunity you see, the more you'll reinvest some of these savings, trying to balance this all against some of the enterprise initiatives that you've been focused on for a while now.

Frederick Lowery - *Henry Schein, Inc. - Chief Executive Officer*

Yeah, let me be clear, the investments that we're making are not at all impacting the commitment we've made on value creation. We're going to deliver $125 million run rate at the end of this year in spite of the fact we're making some limited and targeted investments in the business. So I just want to make sure that's clear.

As it relates to the investments, hey, we're doubling down in areas where we're seeing really good benefits and these are obviously variable situations where we can push more in a certain area and the way we're measuring ourselves is in taking share.

This is the initiatives that we're focused on or allowing us to grow faster in private practice, taking those episodic customers and converting them to active customers. And when we do that, we develop deeper relationships with those customers and we grow faster because of it.

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Operator

Brandon Vazquez, William Blair.

Brandon Vazquez - *William Blair Capital Partners - Analyst*

Hey, everyone. Thanks for taking the question. I wanted to follow-up on that last answer that you've just given, Fred. I mean, can you talk a little bit about where you see the opportunity to make these incremental investments?

In the past, I think the company, if you're talking about the episodic customers, I think in the past that's come from like the new henryschein.com e-commerce website, is it similar investments? Are there new investments that the company hasn't done in the past to go after those? And one kind of homework question here while I have you, can you just level set us on exposure to any inflationary headwinds, rubber, things like that? I know gloves have been a little bit of noise in the past. Thanks guys.

Frederick Lowery - *Henry Schein, Inc. - Chief Executive Officer*

Yeah, thanks for the question. If you would go back to Q2 last year, we started making some investments in promotions and we in some areas saw really good success. I think that has driven some of the momentum that we've seen with private practice.

We've learned from those promotions. We've learned what works really well, and those are the areas that we're doubling down on. I don't want to give too many specifics from a competitive standpoint, but it's really helping us grow our company-owned brands, which is driving a lot of value for our customers as well. And then we have some exclusive products that are making a real difference, like Curodont.

I think those are the kind of things that you'll see us do. And on the traditional equipment side, we have pretty normal promotions, nothing that I would say is new, but pretty normal promotions that we would typically do at this time of year. So we think those things are aligning us to have continued growth in those areas.

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

And Brandon, just the second part of your question regarding the commodity pricing on certain things, the strategy we've had in place to try to manage any increase in costs related to the raw materials on some of these products has mitigated the impact fairly well for us and that includes in some cases being able to.

To offer our company-owned brands, our private label products to customers where the pricing begins to get a little high, that's been helping I believe, some of that accelerated growth we've seen in private label. So the mitigation strategy we believe has worked really well there.

Operator

David Larsen, BTIG.

David Larsen - *BTIG LLC - Analyst*

Hey, congratulations on a good quarter. Can you talk a bit more about growth in US dental consumables, like what's driving that? Is it broad market demand or did you have sort of any pricing events going on where you're reducing prices for certain customers?

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And then related to that, can you talk a bit about the software infrastructure you have for dental practices, how that's progressing? It seems to me that if you sort of manage all of that tech infrastructure, those practices are more likely to buy more consumables through you, especially as their practices grow. Thank you very much.

Frederick Lowery - *Henry Schein, Inc. - Chief Executive Officer*

Yeah, thanks for the question. And we're excited about the growth of our customers. And I think it's important to note that, while there is some pressure on discretionary type spending in private practice and with DSOs, the routine products are actually doing really well. And the discretionary portion of the market is relatively limited in our portfolio. And so on the routine side, we see really good growth as we engage customers more.

We typically are able to grow our business more with those customers as we expand the portfolio and increase our share of wallet with those customers or taking those episodic customers and turning them into active customers.

As it relates to our technology business, we're incredibly excited about our Ascend and Dentrix and Dentally portfolio in dental offices. I mean, we are the system of record for maybe the technology stack, if you will. And the closer we get to those customers; we're helping them drive productivity.

So they're actually seeing more patients. And because of that, we actually see more growth where we are supplying them. So it is absolutely, one of our growth drivers is to continue to grow. And as I said in the remarks, we're growing our cloud-based portfolio by over 200 installs per month.

And so as we continue to see faster growth in our technology business, we absolutely expect to see faster growth in the rest of our business, both because we're building closer relationships with them, but also because we're connecting those portfolios better. So that definitely is a growth driver and part of our algorithm going forward.

David Larsen - *BTIG LLC - Analyst*

Thanks very much. 200 installs a month sounds like a lot, just any more color there like who are you taking share from, are these de novos, were they paper-based previously, just any more thoughts there would be very helpful.

Frederick Lowery - *Henry Schein, Inc. - Chief Executive Officer*

Yeah, I would say it's pretty broad-based and I wouldn't specify a specific area. I think we're making progress both in DSOs and private practices. I would say that emerging DSOs are the faster growing portion of the market from our perspective. But we're pretty broad-based in our success with new placements of our cloud-based practice management software.

Operator

Michael Sarcone, Jefferies.

Michael Sarcone - *Jefferies LLC - Analyst*

Hey, good morning and thanks for taking the question. Ron, best of luck in retirement and Emmanuel, looking forward to working with you. On the call, you mentioned starting to see some pressure in discretionary procedures.

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I think that was a comment geared toward the US. I was hoping you could elaborate a little more there and then just talk about what kind of downside risk there is in the guidance or baked into guide, assuming that worsens?

Frederick Lowery - *Henry Schein, Inc. - Chief Executive Officer*

Yeah, so just when I talk about discretionary, I'm just saying areas where we don't participate a whole lot. Small participation areas like ortho. So that's not a huge portion of our portfolio. So we're not really seeing a lot of impact from that in the quarter.

And when I think about the guide going forward, it's relatively small as far as downside risk and I think you'll see that we expect a pretty steady market and good growth in Q4 relative to maybe some of what we saw in Q3.

Operator

Vik Chopra, BMO Capital Markets.

Vikramjeet Chopra - *Bank of Montreal - Analyst*

Hey, good morning and thanks for taking the question. Ron, best of luck and thanks for all your help over the years. I had two questions, Fred, if I can just start with you first. Given the year-to-date repurchases, I'm just curious how you're thinking about balancing share buybacks against debt paydown, organic investment in M&A, and then I had a quick follow-up, please.

Frederick Lowery - *Henry Schein, Inc. - Chief Executive Officer*

You cut out the first part of that, but I think you're asking about capital deployment share repurchase, but yeah, so we continue to repurchase shares in the quarter because we feel like our stock is cheap and we have a lot of confidence in delivering on our value creation and earnings growth in the future. And so I think we'll still continue to be opportunistic and we'll invest for the best returns for shareholders.

We're not walking away from M&A by any stretch. I think there will be opportunities for particularly for both on M&A in the future and where we find assets that would be additive toward the portfolio and help us grow faster, help us support our customers better and drive better returns or drive great returns for our shareholders, we will be active in that regard.

Vikramjeet Chopra - *Bank of Montreal - Analyst*

Great. And then I'm just curious that beyond the current commitment, how much additional opportunity exists from shared services, outsourcing, procurement and portfolio streamlining?

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

With reference to the outside services, regarding shared services, Vik, I think we're looking at a number of areas that I think would be, I would consider to be conventional with what you see a lot of companies do in shared services.

Those are areas that we're exploring, we've started with a couple of functions already and we have other areas that we think we can centralize and find some efficiencies. You mentioned the portfolio, as you can appreciate the portfolio is always under review, I think as we take a look at it with some fresh eyes with Fred having come in and now Emmanuel is coming in as well.

We'll continue to do that portfolio review and find opportunities to refine it in what we consider to be an optimal way.

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Operator

Michael Petusky, Barrington Research.

Michael Petusky - *Barrington Research Associates Inc - Analyst*

So look, I know this question has been tried about three or four different ways, but maybe for the slow kids in class meaning me. Could you guys just talk about sort of underlying growth expectations moving forward, whether tariffs is sort of a onetime? If you could just add. Again, I apologize, I know it's been asked, but if you could clarify, I would really appreciate it.

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

So Mike, I just want to make sure I'm clear, you're asking when we provide guidance, when we get to the point of providing guidance on '27, how are we going to treat tariffs?

Michael Petusky - *Barrington Research Associates Inc - Analyst*

Yes.

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

Okay. Yes, so we'll clearly make it at that point in time, we'll make it clear what we believe the growth is of the business. What we've been saying is that the double-digit growth. That we've been talking about in terms of our objectives going forward and our goals going forward that the activities that we have in place right now give us great confidence that we can achieve that, I believe with the tariffs there's still an opportunity for that we get to the double-digit growth, but that would be something that we cover as part of the guidance, but I think it's important to focus on that underlying performance.

When you look at the underlying performance of Q3 of this year versus Q3 last year, we point out it was 19% EPS growth and that's the type of growth rate we want to be able to keep pushing going forward.

Michael Petusky - *Barrington Research Associates Inc - Analyst*

Could I just since I'm the last guy, could I just sneak one more quick one in?

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

Absolutely.

Michael Petusky - *Barrington Research Associates Inc - Analyst*

Okay. And in terms of the medical business, you haven't been talking about much. A couple two, three years ago, gloves was always sort of -- you'd give a number ex the impact of headwinds associated with gloves. And it almost feels like point of care diagnostics is now flu and COVID is now sort of almost the same dynamic.

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I'm just wondering -- I understand there was a comment earlier about Q4 should you see a little bit better uptake there with maybe earlier flu season. But just as we move forward, do you expect point-of-care diagnostics to sort of be the bad guy versus home solutions being the good guy in Medical? Or do you see sort of more of a normalized point-of-care diagnostics relative to history?

Frederick Lowery - *Henry Schein, Inc. - Chief Executive Officer*

Yes. I would just maybe just characterize it this way. If you -- we feel like the growth in medical is good when you back out point of care. And by good, I mean it's low to mid-single-digit growth. And that's what we would expect going forward as you normalize for the point of care. Home Solutions, we feel great that it's going to continue to grow high single digit, double-digit growth going forward. So that's how we think about the business at this point.

Operator

Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Mr. Lowery for final comments.

Frederick Lowery - *Henry Schein, Inc. - Chief Executive Officer*

Yes. Thank you. Just a few comments to conclude. Our third quarter results reinforced our confidence in the direction of Henry Schein. Our US dental merchandise sales growth of 8.6% driven primarily by volume and mostly by volume in a stable patient traffic environment demonstrates that our growth strategy is delivering results and that we are taking share.

We're also delivering on our value creation commitments, which are contributing to margin expansion and underlying earnings growth, and that gives us confidence that we will be able to continue to deliver and continue to and achieve double-digit earnings growth in 2027.

Where we see initiatives producing attractive returns, we'll selectively invest behind them, and that will extend our momentum into 2027 and beyond. Our job is straightforward, grow faster, deliver our value creation commitments, operate with greater discipline, and translate those improvements into sustainable earnings growth and long-term shareholder value. Thank you for your interest in Henry Schein and enjoy the rest of your day.

Operator

Thank you. This concludes today's conference call. You may disconnect your lines at this time. Thank you for your participation.

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