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HSIC.OQ - Q4 2024 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 fourth 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 2024 fourth quarter.

With me on today's call is Stanley Bergman, Chairman of the Board and Chief Executive Officer of Henry Schein; and Ronald South, Senior Vice President and Chief Financial Officer. Before we begin, I'd like to state that certain comments made during this call will include information that's 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

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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 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, February 25, 2025.

Henry Schein takes 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, we'll limit -- 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*

Thank you, Graham. Good morning, everyone. Thank you for joining us this morning. I hope that the new time is appreciated by analysts and investors, and if not, and you like to go back to a later time, please be in touch with Graham, and we will take your thoughts into account.

The financial results and guidance being provided today are consistent with the preliminary financial results and guidance provided on January 29. Our fourth quarter financial results reflect relatively stable dental and medical end markets.

We continue to make progress as we sunset our 2022 to 2024 BOLD+1 Strategic Plan which is now completed. We see our key goal of -- and the major target in the plan of 2024 -- by 2024 generating 40% of our worldwide operating income from high-growth, high-margin businesses.

And let me remind our investors, there's another 10% or so of our profits that are coming from our own brands. So well over half of our profits are today coming from our high-growth, high-margin and own brand products.

We have confidence in the underlying fundamentals of our business and look forward to advancing the opportunities contained in our updated '25 to '27 BOLD+1 Strategic Plan.

KKR announced its investment to become our largest non-index shareholder as they recognize the potential of Henry Schein. We expect 2025 to be the base year from which to grow and achieve our previously provided long-term goal of high single digit to low double digit earnings growth with the cyber incident now in the rear mirror.

As part of the launch of the updated '25 '27 BOLD+1 Strategic Plan, we have simplified our organizational structure and appointed Andrea Albertini has responsibility for our global distribution and value-added services group, as well as our global technology group.

The global distribution and value-added services group includes distribution to the global dental and medical markets of national brand and corporate brand merchandise as well as equipment and related technical services.

This group also includes value-added services such as practice transitions, continuing education, consulting, financial and other services. The global technology group includes development, marketing, and sales of practice management software, e-services, and other products and related services.

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We also appointed Tom Popeck to lead our global specialty products group, which includes manufacturing, marketing, sales of dental implant and biomaterial products. Endodontic, Orthodontic, and Orthopedic products, and other healthcare related products and services, as well as management of our corporate brand offering, which is essentially distributed through our distribution group.

We expect that these complementary businesses will drive growth by leveraging our current product portfolio across our entire customer base, providing new products and services to our customers and growing our e-commerce business. I think the relationship between each of our groups and the driving of synergies will, of course, grow sales and related profits.

We are also today announcing a change to our reportable segments. This was also requested by investors during our investor survey some time ago. And we have now prepared financial statements in accordance with these reported the segments and aligned with our management reporting and provide more meaningful information to investors on the business performance.

Ron will detail the performance of each of these three groups in his prepared remarks. We will continue to provide information on our high-growth, high-margin products and services, but these are now included in each of our reportable segments and which -- and of course, it's a key metric for us to drive high-growth, high-margin profits -- sales and profits, a very important metric for our 2025 to 2027 strategic plan. We'll provide you with separate data on that.

Now let's turn to a review of our key business units. Let me start by reporting on the global distribution and value-added services group. During the fourth quarter, we continued to see relatively stable patient traffic. Market growth for dental and medical products continue to be below the long-term guidance range we provided at our Investor Day, partially as a result of customer migration to value priced products.

Now if we look specifically at the US dental merchandise growth, which was strong excluding sales of PPE, personal protective equipment, and impacted by low prior year comparable, offset by the midweek timing of Christmas. Ron again will give you specifics later in the call.

On the US dental equipment sales, which increased double digit and benefited from the deferral last year of some sales in the fourth quarter of '23 into the first quarter of '24 as a result of the cyber incident, we achieved strong growth in traditional equipment and parts and technical service.

Digital equipment sales also increased with unit growth quite good, offsetting some price declines. On the US medical business, results reflect a late start of the flu season and lower sales of vaccines, PPE and COVID tests.

Our home solutions business performed particularly well during the fourth quarter. In January, we strengthened the business as we completed the tuck-in acquisition of Acentus. This is adding to our offering of continuous glucose monitors, an area of the home care market that we're quite bullish about.

Now we've increased the annual run rate in this home care solutions business that we entered a couple of years ago to approximately $400 million with a significant amount of that $400 million coming from internal growth.

Let's take a look now at our international dental merchandise sales, which grew strongly with good growth in Canada, and Canada now is included in the international group -- dental group. Strong growth in Canada, Europe, Brazil, slightly softer growth in Australia, New Zealand and Asia.

International equipment sales growth was solid. The stronger growth in traditional equipment compared to digital equipment, which was again good units, but digital was impacted by pricing, all similar to the US, a global trend. But overall, our equipment business was quite good this quarter.

Right. Now let's turn to a review of the global specialty products group, which had solid growth in dental implants, biomaterials and endodontic. The core businesses in this group did well. Our new entry into the orthopedics arena last year, special -- well, we did have some orthopedic products before, but the significant investment we made last year also performed well. This offset -- this growth was offset by a decrease in the orthodontic sales, and we're addressing that through restructuring, largely a result of product -- an important product going off patent.

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We have a new product coming. Actually, we have it in place now and it's gaining some traction in the orthodontics field. Implant and biomaterial sales in Europe continued to be quite strong, especially in the DACH region, that's the German speaking region, where our BioHorizons Camlog products continue to grow well.

While the launch of BioHorizons Tapered Pro Conical implants in the US is proceeding well, the initial sales are largely coming from product conversions with existing customers resulting in modest incremental sales. But we expect the Tapered Pro Conical implant to be a way to generate business from new customers in our implant business.

Overall, our sales of implants in the value segment posted very strong quarterly growth. The S.I.N. product line posted solid double-digit growth in Brazil, and we continue to roll out the brand across the US to serve the value segment of the market.

Our endodontics sales growth was strong as a result of our expanded sales focus through our US distribution sales channel of the Edge product offering as well as some new product functions. A little bit more on the orthopedic business which continues to perform well, including our TriMed acquisition which is complementary to our medical focus on ASCs and specialty customers.

New products in both upper and lower extremities as well as good momentum with a new dedicated sales team in foot and ankle helped drive sales growth. So this whole area of specialty is working well for us. We will deal with the orthodontic challenge. But overall, if you take that out, the performance is quite good.

Now if you look at the technology group. While overall sales growth was low, we had strong operating growth in the business. Sales continued to perform well in cloud based practice software, that's management -- practice management software. And revenue cycle management also did quite well, partially offset by the sunsetting of certain brands. The whole idea here is to drive towards common brands for each type of application.

We lose a little bit of business along the way, but we can provide better service and of course, greater margins. And we now have over 9,000 customers subscribed to Dentrix Ascend and Dentally with year on year growth of approximately 6.5%.

It's very important to understand that this is a shift from an on-prem sale to a SaaS model, which creates short-term headwinds on the revenue side, which is outweighed by longer-term benefits from higher recurring subscription revenues.

This model is working quite well. Cost efficiencies in the business are there. They've been reaped, more to go as we merge brands, and this is driving technology operating margin up. This trend, we expect to continue.

Now let me turn the call over to Ron to review our fourth quarter financial results and our '25 guidance. Ron, please.

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

Thank you, Stanley, and good morning, everyone. As Stanley mentioned, we are also today announcing a change to our reportable segments to align with management reporting and provide more meaningful information for investors on the business. The results being reported today reflect this change, and a recast of prior comparative segment information has been provided in Exhibit B of today's press release.

Turning to our fourth quarter sales results. I will provide detail 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.

Global sales were $3.2 billion with sales growth of 5.8% compared to the fourth quarter of 2023. This includes 0.7% growth from acquisitions and a 0.4% decrease attributable to foreign currency exchange. Please note that sales in the fourth quarter of 2023 were negatively impacted by the cybersecurity incident.

LCI sales increased 5.5% for the quarter or 6.6% when excluding lower PPE sales and COVID test kits. Our GAAP operating margin for the fourth quarter of 2024 was 4.86%, a 358 basis point improvement compared with the prior year GAAP operating margin.

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On a non-GAAP basis, operating margin for the fourth quarter was 7.46%, a 260 basis point improvement compared to the prior year non-GAAP operating margin. In the prior year, both the GAAP and non-GAAP operating margins were negatively impacted by the cybersecurity incident.

In the fourth quarter of 2024, our operating margin benefited from lower operating expenses year over year as we are starting to realize cost savings from our restructuring initiatives. We also continue to experience year over year gross margin expansion in the fourth quarter, primarily as a result of acquisitions we have made to advance our BOLD+1 strategy.

For the full year, we achieved 41% of our total operating income from high-growth, high-margin businesses. Fourth quarter 2024 GAAP net income was $94 million or $0.74 per diluted share. This compares with prior year GAAP net income at $18 million or $0.13 per diluted share.

Fourth quarter 2024 non-GAAP net income was $149 million or $1.19 per diluted share. This compares with prior year non-GAAP net income of $86 million or $0.66 per diluted share. The foreign currency exchange impact on our fourth quarter diluted EPS was unfavorable by approximately $0.01 versus the prior year.

Adjusted EBITDA for the fourth quarter of 2024 was $270 million compared to fourth quarter of 2023 adjusted EBITDA of $172 million.

Turning to our fourth quarter sales results. We are updating the breakdown of sales as detailed in Exhibit A of today's press release to reflect the updated reportable segments as well as other internal management responsibilities. Of note, we are now reporting US distribution sales instead of North America distribution sales. This means Canada is now being reported as part of international.

As a point of reference, Canada has approximately $400 million of annual revenues. Approximately two-thirds of those revenues are merchandise sales with the remaining one-third as equipment sales.

Global distribution and value-added services group sales were $2.7 billion with sales growth of 5.9%, including LCI growth of 5.8%. Sales were positively impacted by a soft comparison to the prior year. Excluding PPE and COVID test kits, LCI sales growth was 7.3%.

Our US dental distribution LCI sales grew 5.9% versus the prior year with LCI growth in dental merchandise of 4.8% or 6.5% growth when excluding PPE products and equipment LCI's growth -- sales growth of 10.0%. US equipment sales growth was driven by both traditional and digital equipment, with digital equipment unit growth offsetting some pricing declines.

US medical distribution LCI sales grew 4.5% compared to the Q4 of 2023. Excluding sales of PPE products and COVID test kits, LCI sales grew 7.3%. Sales of point-of-care diagnostics and vaccines were negatively impacted by the timing of the flu season.

Our home solutions business had another strong quarter growing 8% year over year. Our international dental distribution LCI sales grew 7.3% versus the prior year with LCI growth in dental merchandise up 7.9% or 8.0% growth when excluding PPE products, and equipment LCI sales growth was 6.0%.

Finally, global value-added services sales grew 8.1% versus the prior year with an LCI sales decrease of 0.7%. We achieved strong sales growth in eAssist and financial services, offset by lower sales at large practice sales as a result of the timing of closing of some practice transition services sales.

Turning to the global specialty products group, which includes our dental specialty products, orthopedic and other products. Sales were $368 million with sales growth of 7.2%, including LCI growth of 5.0%. This segment includes the orthodontic business which is being reorganized for future profitable growth. It also includes certain expenses relating to managing our own brands that support sales in the distribution businesses and provide a headwind to the segment's operating margin.

Global Technology Group sales during the fourth quarter were $160 million with total sales growth of 2.4% and LCI sales growth of 2.1%. This was driven by revenue cycle management and practice management software with double-digit growth in Ascend and internationally led by our

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Dentally cloud-based practice management solution, offset by lower revenues of certain patient experience modules and, as Stan mentioned, a headwind to revenue growth as a result of the movement to a SaaS model.

Restructuring expenses in the fourth quarter were $37 million or $0.23 per diluted share. These expenses mainly relate to severance benefits and costs related to exiting certain facilities. Our restructuring activities in the third and fourth quarters are estimated to provide over $80 million in annual run rate savings. We continue to expect savings from this plan to be $75 million to $100 million of aggregate annual run rate savings by the end of 2025.

Our fourth quarter GAAP results include $20 million in pre-tax proceeds as part of our cyber insurance claim, which are excluded from our non-GAAP results. As of the end of the year, we collected approximately $40 million.

All items excluded from our fourth quarter non-GAAP financial results for 2024 and 2023 are detailed in Exhibit B of today's press release. A reconciliation of GAAP to non-GAAP results is also available in our quarterly earnings presentation on our website.

Regarding share repurchases, we repurchased approximately 1.1 million shares of common stock in the open market during the fourth quarter at an average price of $71.35 per share for a total of $75 million. For the full year, we invested $385 million to repurchase 5.4 million shares.

At fiscal year-end, we had approximately $380 million authorized and available for future stock repurchases. An additional $500 million of share repurchases was authorized by our Board of Directors on January 27, 2025, including a commitment to repurchase $250 million in shares under an authorized accelerated share repurchase program.

Turning to our cash flow. We had strong operating cash flow of $204 million for the fourth quarter, which compares with operating cash flow of negative $32 million last year. Operating cash flow for the full year in 2024 was $848 million, which is $348 million more than in 2023. Our strong operating cash flow for the quarter and the year was driven by lower working capital, particularly lower customer receivables, which we've been focused on throughout the year.

Turning to our 2025 financial guidance. At this time, we are not able to provide without reasonable effort an estimate of restructuring costs associated with the new restructuring plan for 2025, although we expect this to primarily include severance pay and facility related costs.

Therefore, we are not providing GAAP guidance. Our 2025 guidance is for continuing -- current continuing operations as well as acquisitions that have closed and does not include the impact of restructuring and integration expenses and other items described in our press release.

Guidance assumes modest improvement in the dental and medical markets during the year and is supported by strategic initiatives outlined in our strategic plan and recent acquisitions as well as a positive contribution from our restructuring plan. This is partially offset by investments in technology and a return to historical levels of incentive compensation. We also assume that foreign currency exchange rates remain generally consistent with 2024 levels.

Our 2025 total sales growth is expected to be 2% to 4% over 2024. For 2025, we expect non-GAAP diluted EPS attributable to Henry Schein, Inc. to be in the range of $4.80 to $4.94, which reflects growth of 1% to 4% compared with 2024 non-GAAP diluted EPS of $4.74 per share.

2025 non-GAAP diluted EPS is expected to be more heavily weighted to the second half of the year. This guidance assumes there is no debt impact from the issuance of new shares to KKR, which is expected to be offset by an accelerated share repurchase program. It also assumes an estimated non-GAAP effective tax rate of 25%.

Our 2025 adjusted EBITDA is expected to grow in the mid-single digits versus 2024 adjusted EBITDA of $1.1 billion. We expect adjusted EBITDA to grow faster than non-GAAP diluted EPS due to higher depreciation expense, primarily related to the global e-commerce platform.

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

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

Thank you, Ron. Operator, we're ready to respond to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jason Bednar, Piper Sandler.

Jason Bednar - *Piper Sandler Companies - Analyst*

Hey, good morning, everyone. Thanks for all the detail here in the recast financials. I appreciate that's not an easy undertaking. I want to start with, if I could, revenue guidance and just some of the underlying assumptions you have there. You're calling for 2% to 4% reported revenue growth. It's based in part upon improvement in both dental and medical end markets versus last year.

Just -- I understand why your business can continue to outperform the broader market with your investments, the initiatives you have in motion. But it does seem like your market view is slightly more optimistic than what we've heard from some of your peers. So is there something you're seeing today that gives you kind of, call it, better relative comfort on the market outlook?

And then if you're able, can you give us a sense of how you're forecasting organic growth for each of your new reporting segments, really just in the context of that company-wide guide?

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

Yeah. Sure, Jason. I think the -- we do see modest growth in the markets, right? If you think back to the Investor Day two years ago, we said then we thought core dental could grow 2% to 4%. I think we're still looking at market -- well, if there's market growth, we think the 2% could be challenging. So it's probably somewhere in that 0% to 2%. But we do expect some modest growth in there.

Price appreciation is also limited, so there's not a lot of price appreciation in our revenue guidance. And you mentioned too kind of inorganic versus organic. Our M&A activity was a little lower than most years in 2024. So we're not getting -- there's a very limited amount of acquisition growth included in that overall revenue growth as well.

Jason Bednar - *Piper Sandler Companies - Analyst*

Okay. Ron, I guess, on the second part of that, any breakdown on -- or how you want us thinking about, under your new reporting structure, the global distribution, US versus international, thoughts within there, global specialty, global tech.

And then maybe just as a follow-up, on the bottom line, you seem pretty confident just in the outlook of getting back to high single-digit growth once we get past '25. Is that a function of '25 investments tapering in '26? Or is it a belief we're going to see better natural leverage coming through the P&L?

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

I think it's a combination of -- on the latter part of your question, it's a combination of that, right? It's the ongoing benefits we would get from some of the restructuring we're doing, at some point, some recovery in markets and perhaps some better price appreciation going forward as well.

In terms of -- going back to your question on the reportable segments. I think that within the -- within each of those, we are looking at kind of market growth that continues to be lower than we would normally anticipate and lower than what we communicated on Investor Day two years ago.

So for example, I think we said that medical growth rates were in the 4% to 7%. We think that right now, we expect that market growth to still be slightly below that 4%. Dental specialties were in that 5% to 8% range.

So there are pockets of dental specialties that could be in that range, but there's also -- especially on the, what I'll call, kind of the sub-premium side, we still think it's lower than 5%. So there are some aspects of the market that are going to be lower than what those market growth rates were that we assumed a couple of years ago.

Jason Bednar - *Piper Sandler Companies - Analyst*

Alright. Very helpful. Thank you.

Operator

Jeff Johnson, Baird.

Jeff Johnson - *Robert W. Baird & Co., Inc. - Analyst*

Thank you. Good morning, guys. I know we're two months into 2025, but I just want to go back to the fourth quarter for one second here if I could. I mean, when you pre-released last month the $3.2 billion in revenue for 4Q, we frankly had hoped that was a rounded down number. It ends up in today's release that was a rounded up number.

And when I looked at just kind of relative to your third quarter updated guidance that you provided on the third quarter, sorry, for 2024, you fell short in the fourth quarter by 500 basis points in the fourth quarter on a revenue basis at the low end of the guidance, 700 basis points-plus at the midpoint.

So what happened in fourth quarter, I guess, that drove those revenues 500 basis points below the low end of the guidance, 700 basis points below the midpoint of the guidance, just relative to a guidance that was issued a month into the fourth quarter? Thank you.

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

Sure, Jeff. I'll address your rounding question first. I mean, we did say $3.2 billion. I think revenues of $3.191 billion. So you're right, we rounded it up $9 million. So -- but we did round that to $3.2 billion.

In terms of the lower revenues than expected, as we mentioned, we did have -- it was a relatively flat patient traffic in the quarter and also a really kind of a slow end of the quarter given the timing of Christmas, which we underestimated the impact of that.

So the quarter did end much more slowly than what we may have anticipated. And on the medical side, the timing of the flu season resulted in much lower medical revenues than we had anticipated as well.

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Jeff Johnson - *Robert W. Baird & Co., Inc. - Analyst*

Okay. And if I look at the dental numbers, and a little bit hard to compare to our old models, obviously, but you gave us some historical restatements to help. But that US number, up mid-single digits on consumables, I think, somewhere in the neighborhood of a negative 8% to 10% comp depending on how we cut the numbers. So on a stack basis, still negative.

We talked about the market being pretty flat, and you guys have recovered a decent amount of your cyber share loss. I mean, talk to me maybe just about share dynamics in the fourth quarter and share dynamics expected in 2025.

Do you feel like you're holding your own? Do you feel like you're maintaining that share? Are you losing share at this point? Just help me understand kind of that stack comp still negative on the consumables side in the fourth quarter. Thank you.

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

Yeah. In the fourth quarter, we did see share stabilize. We had been getting a little bit of additional market share quarter to quarter sequentially over the course of '24. Our Q4 share was relatively flat to our Q3 share. There's -- there could be a number of reasons for that. But we're still confident we can continue to get some market share as we get into '25 as well.

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

Jeff, let me just add that moving to the segment reporting and changing the way we've reported in the past is just not easy to comprehend. We provided a lot of data in the exhibits. There's no way these changes could be understood in 1.5 hours. So I'm not sure if there was a better way to do this. This is the best way we thought to providing this information.

But I think if analysts, yourself, have a few more hours to look at the schedules that we provided, it will make a lot more sense. But this is a onetime move in 29 years that we've moved as a public company from one way of describing our business to another. The description follows reporting -- internal management reporting which was required by the SEC, and there's a lot of information that is contained in these attachments. And we'd be happy to clarify.

We do understand, specifically for yourself and for others that have covered us for many, many years, that this is a significant change, and it's very difficult to comprehend all the nuances in 1.5 hours. Perfect storm in reporting and new segment reporting all thrown together.

But we're available to provide more information. But I think the attachments will be helpful, but you will need time to analyze them.

Jeff Johnson - *Robert W. Baird & Co., Inc. - Analyst*

Understood. Thank you, Stanley.

Operator

Allen Lutz, Bank of America.

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Allen Lutz - *Bank of America - Analyst*

Good morning. Thanks for taking the questions and thank you for all the updates so far. I want to go to slide 8 in the presentation. Specialty operating margins are up pretty nicely year over year but they may be a little bit below where we thought they would be. Can you talk a little bit about the opportunity to raise those margins over time? Thanks.

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

So just on the specialty side. The specialty margins, this is the reporting segment as it relates to reporting of management. So within that segment, there are some lower-margin businesses, for example, our pro repair handpiece business. It's good. But it's about have maybe more -- maybe less of the margin compared to our implant business and our endodontic business.

We had a challenge with the orthodontic business, which we are addressing. And that segment also includes expenses for management of our corporate brand products which are essentially distributed through our distribution business.

So it's not a pure margin for the implants and the endo, it includes other components as well. But it does follow the requirements of all the businesses and all the functions reporting to Tom Popeck. So we can provide further information. We will over time. But this is the reporting as it relates to management reporting rather than products that are implants, bone regeneration and endodontics.

Yes, we do expect the gross -- the operating margin in this segment to grow over time. That is a key focus. But it's not a pure number relating to implants, bone regeneration and endodontics and affect orthopedics, which have higher margins.

Allen Lutz - *Bank of America - Analyst*

Thanks, Stanley. And then one for Ron. Is there any way to frame how fast dental implants grew in 4Q? And then as we look to 2025, a large Medicare Advantage payer stopped covering implants in 2025. Wondering if there's any change to growth you're seeing through the first two months of the year. And what's embedded in the guide for North American implant growth? Thanks.

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

Yeah. With reference to implant growth, we're still seeing a relatively healthy growth in Europe more so than in the US. In the US, we're still getting some value implant growth more so than perhaps on the premium side. And US is a slightly tougher market right now with implants.

But in Europe, our Camlog subsidiary that focuses primarily in Germany, Austria, Switzerland region are really in that kind of low to mid-single-digit growth range, which we're pleased with because it's a difficult market. There was a second part of your question, Allen, I'm sorry, it was --

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Allen Lutz - *Bank of America - Analyst*

Just around 2025, a large MA payer stopped covering implants. Wondering if that had any impact through the first couple of months of the year.

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

No. I mean, it's not a, what I would call, significant part of the kind of end market for us. So we haven't seen anything that we would point to that we would be able to directly attribute that to an impact on the business at this point.

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Allen Lutz - *Bank of America - Analyst*

Great. Thanks, Ron.

Operator

John Stansel, JP Morgan.

John Stansel - *JP Morgan - Analyst*

Great. Thanks for taking my question. I want to go back to the KKR agreement. I think in the agreement, there's commentary around the value creation plan using KKR Capstone. Can you just speak to what areas they'll be looking at?

Is this purely an advisory capacity? And then maybe a little bit more broadly, are there things that KKR's pretty extensive dental portfolio can do to work together maybe that haven't happened previously? Thanks.

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

Yeah. So as it relates to KKR, they are not on the Board yet. We have to clear the Hart-Scott-Rodino before they can get deeply involved. We will, of course, engage with their team. There are a number of areas that they feel they can help us with that we really believe they can.

But our focus and the areas -- our focus through our strategic plan and the areas that KKR has capabilities align very nicely, but we can't really get to work in any significant or meaningful way until the filing is clear. We're still in the preliminary stage of the filing. We haven't received any further commentary.

So we're hopeful that we'll clear the Hart-Scott soon and then we can get to work with KKR. But they're not on the Board yet and they cannot really get engaged. I don't expect much benefit from the relationship with one of our large customers. It is definitely a Chinese wall between the two sides and different people involved.

John Stansel - *JP Morgan - Analyst*

Great. And then just one, maybe for Ron. You talked about that share gain versus kind of the beginning of 2024 -- exiting '24. I think about that and potentially the flu season pushing into the first quarter. Seems like you would think that growth might be weighted more to the first half of '25 versus the back half at the top line. Can you help me just balance that versus the back half weighting of adjusted EPS, what the factors are that kind of might create that dichotomy?

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

Well, it does assume kind of ongoing -- regaining some market share over the course of the year. And also, as we get some greater momentum on the implant side, for example, with the Tapered Pro Conical and some of the newer products that launched in the back half of 2024, that would give us momentum into '25.

And then that spreads just reference to the top line. And then bottom line is just ongoing reduction in expenses as we execute on the restructuring plan that would get us to some -- to more I would expect more earnings growth in the back half of the year than in the first half of the year.

Keep in mind, too, one other thing, John, is said -- and we referenced this on the call, we will have a difficult equipment comp in the first quarter of 2024 -- I'm sorry, 2025 as last year the first quarter benefited from some deferral of equipment installations coming off the cybersecurity incident.

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So when we report Q1 and talk about equipment, we'll also be looking at it -- as we're looking at it internally, we kind of look at that as a six month period, Q4 to Q1, how is that business doing versus last year given that disruption to the timing last year on the equipment installation as well.

John Stansel - *JP Morgan - Analyst*

Great, thanks.

Operator

John Block, Stifel.

John Block - *Stifel, Nicolaus & Company, Inc. - Analyst*

Hey guys, good morning. Ron, I think this one is probably for you. Just the 2025 EPS growth at a high level, basically in line with revenue growth. I just think about like mix shift, debt paydown, stock repo, ongoing restructuring, maybe some past accretion targets from those deals that were done in prior quarters.

Can you talk to why we're not seeing some slightly higher leverage on the bottom line versus the top, even in a year where there's a lot of moving parts or what you seem to be alluding to is like a rebasing type of year?

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

There's a couple of things, and we've kind of touched on some of the challenges on the revenue side. I would say two things that are specific. We have talked about some ongoing investment in IT, specifically in our global e-commerce platform which we'll be launching in the US this summer.

But we have begun depreciating that system because we did launch it on a test basis in Europe late in 2024. So we are going to get a full year of depreciation on that.

And then also, as we referenced in the call, kind of a return to what we'll call hopefully more normal incentive compensation expense as we the last couple of years, between cyber and the softer markets, have not had -- were not considered to be a normal expense level there.

So there are some internal headwinds related to this. Some of this is offset by some of the cost savings we're achieving. But there are some top line challenges out there still that I touched on when referencing the revenue guidance.

John Block - *Stifel, Nicolaus & Company, Inc. - Analyst*

Okay. Thanks. And maybe just to shift gears. Stanley, in the past, I think you've alluded to the need for, call it, accelerating innovation from partners or investments in new products. And here we are shortly coming up on IDS next month. So I'm just curious on how you see the pipeline from some of your partners.

And do you see some of that innovation, call it, like incremental innovation working its way through? Nothing is overnight, but that might give you more confidence as you look out over the next 12 to 18 months in your equipment line. Thank you.

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

Yes, Jon. Thank you. Very important question. I do think we will see some marginal incremental advancements at IDS, I think, particularly in the digital space and the digital materials. And I think on the consumables, the basic consumables, hopefully we'll see some advances.

But at the moment, not much. There are, of course, always manufacturers that are coming out with something new, but I don't think very much.

And on the traditional side, not very much either, the imaging. But the digital side, yes. And I think that may lead to more movement towards a second tier potentially and maybe corporate brand type products. Of course, I'm not talking about the specialty side. It continues to be good innovation, funding on the implant side, a little bit on the endodontic. We'll see what happens next month. I don't expect any big surprises.

Operator

Kevin Caliendo, UBS.

Kevin Caliendo - *UBS - Analyst*

Thanks for taking my question. Ron, I just want to dive a little bit more into the margin question. I appreciate you saying you have $75 million to $100 million of savings. There's offsets from IT, offsets from the incentive program normalizing again next year.

I guess if you're talking about flat operating margins, is that completely offsetting the $75 million to $100 million in savings? And like if we were to break that apart, what's happening with the margins on the segments ex the sort of cost savings against the one-timers that are company specific that are offset? I'm just trying to understand what's driving the margin specifically, either segment or cost savings against one-timers.

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

Yeah, certainly, Kevin. I'll try to -- I think I understand your question. The -- for example, in distribution and something we've touched on, you're seeing some movement to lower-priced items. While those gross margins can be beneficial, from an operating margin standpoint, we were seeing relative stability as it relates to that shift to merchandise.

We are seeing some -- we've mentioned some of the pricing pressure on digital equipment that can put a little bit of pressure on margins as well. So those are more kind of market phenomenons that we're trying to manage.

You mentioned some of the company-specific items that will -- that we are investing in. And those are items, quite frankly, that were long-term investment plans regardless if we were doing the restructuring or not. So some of that, you could argue, is a reinvestment of the restructuring savings and some of it is -- we were going to incur it anyway. It perhaps just falls out.

Once you get past distribution, you get into specialty. We do see a little more of a shift, for example, in implants to value implants versus premium. That has a slightly different margin profile. We are working to improve the orthodontic business, which right now is creating a little bit of a drag for us on that operating margin.

So there's a couple of things within specialty as well that we believe once we kind of get beyond '25 and get to a more normal run rate with those businesses, we'll begin to see operating margin expansion contribution from that portion of the business.

And in technology, the technology team has done a very good job of reducing costs of consolidating some brands on the patient experience side. We saw some good operating margin expansion in technology in the back half of '24. Another challenge will be to try to maintain that type of operating margin going forward.

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Kevin Caliendo - *UBS - Analyst*

Great. And if I can ask a follow-up to Stan. When you partnered with KKR in this way, I know you have a long-standing relationship with Henry Schein One, did you view them as a strategic partner? Or did you think that they would come in more and help operationally? Like take me through what you think the benefit you're going to get from having a stronger relationship with KKR going forward?

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

Yeah, it's good. I think they will be a very strong strategic partner. They do care about the medical space but particularly the dental space. I think they're interested in advancing their platform on consumables, equipment, software, synergy between all of those, specialty area. They have very good capabilities with the Capstone area. So I think there are a lot of opportunities.

And the good news is the areas they see as opportunities align with the areas that we have identified in our '22 to '24 strategic plan that are now magnified in the '25 to '27 strategic plan the high-growth, high-margin opportunities, the opportunities relating to advances in efficiency on our distribution side, driving customer satisfaction, the areas of leveraging between our businesses and of course, the technology area. The whole BOLD areas that they align.

They're adding two, we're very fortunate, directors who had a lot of experience in the markets that we serve. We've added a third new director, who has very good experience in the device field. So I think they will add a lot.

The people that we've met are people that really are interested in our business and are long-term players in this field. This is not a buying the stock, driving it up and exiting. This seems like a long-term play. It doesn't seem -- that's what the assurances have given. So we're very, very excited with the opportunity to partner with KKR in advancing our BOLD+1 Strategic Plan.

Kevin Caliendo - *UBS - Analyst*

Thank you very much.

Operator

Brandon Vazquez, William Blair.

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

Hey guys, thanks for taking the question. Two quick ones that are a little bit of clarification ones. When you were talking, Ron, about sales structure normalizing in 2025, just to be clear, can you clarify that there -- is there a change in the sales incentives or the structure of the sales incentive packaging? Or is it simply a normalization of what you think comp will be because things are normalizing?

And then the other clarification question is simply around tariffs. With the Trump admin saying now again that the Mexico and Canada tariffs might be going on soon and then, of course, China has gone on. Just talk to us about what is and isn't included within the '25 guidance that's been given.

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

Yeah. Just to clarify, Brandon, first on the compensation question you have. That was with reference really the management incentive compensation, not on the sales side. We have made -- we've also made some changes in the sales commission structure, which we think can help us drive growth and improve -- perhaps improve margins going forward.

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But what I was referring to specifically was when you look at the stock-based compensation and other related expenses going forward, we would -- to the extent we can get the business back to more normal growth rates, we can start to expect an increase in those expenses, and that's reflected here.

Regarding tariffs, we have -- with like for example, with China, the one product category that is most affected by China historically would be gloves. And over the course of '24, we were able to shift a lot of our supply chain to other Southeast Asian countries, Vietnam, Malaysia as an example.

We continue to have supplier relationships in China. We can have them supply our European businesses without having to manage the tariff side of it. Beyond that, in Canada, Canada is a large producer of anesthetics for the dental industry to the extent that there's an increase in cost of anesthetics.

It won't only affect us. It will affect everybody because that's where most anesthetics -- dental anesthetics come from. And regarding Mexico, we rely very little on supply from Mexico. I think that that's -- those are really the areas of focus right now. But we believe we're well positioned to manage through any situation that would arise as it relates to tariffs.

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

Thank you. And maybe one big -- bigger picture. I'm not sure we've ever gotten a stat like this from you before. But maybe can you talk about -- you guys obviously have your own product portfolio of Henry Schein branded products.

What percentage of customer needs do you guys think you can fulfil with your current portfolio? Trying to get a sense of like how big can this product portfolio actually get over the coming years and how much line of sight do you have in your current customer accounts to grow that business? Thanks.

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

So of course, we are committed to our branded manufacturers. It's a hybrid model and where the branded manufacturers have an offering that provides the price -- that satisfies the pricing needs of our customers. We will work with the branded manufacturers.

But essentially, for most products on the consumable side, we do have an alternative. Whether it's the brand is as well recognized or not, that's a different story. But I think the Henry Schein corporate brand has moved over the last five or six years to much more of a brand versus a white box.

But essentially on the dental side, we have most of the products, if not almost all. We do not have private brand dental traditional equipment. I'm not sure there's a need for that. We have adequate sources of supply. And in that area, manufacturers are working with us to meet the value needs of our customers, whether they are DSOs or smaller practices.

On the medical side, a lot of -- we have a lot of the products, not everything. And certainly, we don't have our own brand of generic drugs, but we do have all products that are purchased by medical customers and are available -- generically available under a generic brand.

But we don't have our own brand of generics. Most of our pharmaceuticals anyway are injectables and vaccines. For vaccines, the big one, flu, there's adequate supply of not exactly generic but equivalent products and on injectables, generally with some things available. So generic, we have access to that at very competitive pricing. So we have a complete portfolio as needed.

We're always adding new products, of course. But -- and we're always improving on our brand image to match the policy of the product. But generally, our corporate brand has very good potential.

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Having said that, we are always working with our branded manufacturers, and this hybrid model works well. And we are expecting to increase our gross profit margin because of the specialty products but also because of our own brand and because of the support from certain of our manufacturers, national brand manufacturers. So we do expect gross profit to increase this year and in the future.

Operator

Elizabeth Anderson, Evercore ISI.

Elizabeth Anderson - *Evercore ISI - Analyst*

Hi guys, good morning and thanks so much for the question. I have maybe two follow-ups on some of the things. One, I appreciate all your comments on the tariff guidance -- tariff impact or potential tariff impact.

Can you just remind us, maybe I missed this, like what exactly you included in the guidance or whether you just think it's sort of incremental but not necessarily something that you're as worried about given some of the sourcing changes?

And then two, maybe, Stanley. Can you talk about the transition within the orthodontic market? I appreciate what you said was sort of temporary in nature. But I just want to make sure I understand the dynamics of that, your patent comes off and you re-ramp both in the broader orthodontics business and also clear aligners the business. Thank you.

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

Yeah. Sure, Elizabeth. On the tariffs, essentially, there is no -- we're not contemplating any impact to our bottom line. A big, imported product offering is the gloves. And yes, there's some nitrile gloves that we have to purchase in tariffed countries. I think everybody is, to some extent, reliant on that.

But other than that, we've been able to shift our product needs around. We can acquire gloves, for example, adequate inventory from Malaysia. I'm not aware of any tariff implications on Malaysia. And as it relates to China, some other product that we need comes from China, we can use that in Europe and satisfy the US demand elsewhere.

Not much else. We've been moving product around now for a while. We've contemplated this tariff for a while. I do not believe it will impact our bottom line. As Ron mentioned, the big one is dental anesthetic from Canada.

For the moment, we have adequate inventory to get us through for a while. But if there is a tariff on dental anesthetic from Canada, it will impact the entire industry because you can't just move dental anesthetic around.

Maybe a little bit more will come from France, but a huge percentage will come from Canada. So I don't think from our bottom line point of view, if tariffs are implemented, it will impact sales in a positive way. But I don't think the bottom line will have -- will be impacted in any material way or in any way, really.

As it relates to orthodontics, it's a small part of our business but the infrastructure we had in place for the traditional orthodontics was built for a much larger business. We're now rightsizing the infrastructure. Yes, we lost a patent on an important product in the orthodontic space. So we lost money in that space, operating income in '24. That is being adjusted.

As it relates to aligners, we make the liners in the US and in France to our biotech business. We're synergizing those. All aligners will come out of the French factory. It's actually a very good aligner. But we have been losing money on aligners and we expect to turn this all around in '24.

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By the time we get to the third or fourth quarter -- actually more in the fourth quarter, we will start making money again in a very small orthodontic space, which has been a drag on our specialty earnings in '24. As we get to the end of '25, I think you'll see profitability in the orthodontic business. But it is small, but we did lose some money in '24. I think we're at the end now.

Operator

Yes, Mr. Bergman. I turn the floor back over to you for closing comments.

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

Yeah. So thank you, everyone, for calling in. Really appreciate it. I'm aware that the movement to the new segment accounting is a bit of a challenge. I don't know of another way. I'm sure there were other ways in which we could have advised our investors of this change.

We did alert our investors in our last call that we would be doing this. We did consult our advisors. And I do apologize if we're hitting our investors with too much new information all at once while, at the same time, having an early call. So that's number one.

Number two is our team are ready to address questions, of course, all in compliance with FD. Graham and Susan and Ryan are available. Of course, I will take calls from any investors, too. I just wanted to emphasize, and maybe it didn't come across clearly, we are quite bullish about the business. I think the business is running well.

We have very good management in our segments. Each one of the segments is run by capable people, experienced people, not only heading up -- not only Andrea and Tom, but the teams underneath them are very, very solid, both in the United States dental business in the United States medical business. our Canadian, Brazilian business, our European business and our Asian businesses.

So I think we've got as good a team as anyone else in our industry. I think we are continuing to gain market share. If you peel the onion, maybe there's some areas where we haven't grown market share this quarter. There's very interesting dynamics as the cut-off when Christmas fell, what was moved between '23 last quarter and '24 first quarter, the comparables. These are all areas and hopeful that '25 will be an easier year to understand. And we're well set up for an outstanding, I think, '26.

We view '25, as we've noted a couple of times, as a base year upon which we will return to our corporate model for growth, high single digits, low double digits EPS. The cash flow in the business is good. The investments that we've made to advance our strategic plan are doing well. The big ones are doing extremely well. And our advances on all sides of the strategic plan, the BOLD+1 plan are doing well.

You've got a slide in the investor presentation covering the B, the build, the operationalization of our distribution business, the O, the leveraging is doing well with lots of opportunity. And we're making very good progress on the digital side.

The GEP system that we launched in the UK and Ireland is working quite well in that market, and we'll come to the states later in the year. I'm quite comfortable that, that product will generate much more business. It's not doing it now.

Although right now, we do have to recognize the depreciation. We're doing quite well in advancing our clinical workflow. We're advancing AI in the business. We're doing, I think, the things we should be doing. But I do realize from an investor point of view, there's been a lot of change.

The change started with the COVID up and down, the some restructuring that occurred after COVID and as things were settling down. We did have the cyber incident. But we have, I believe, fully stabilized post the cyber incident. I was just at our medical national sales meeting. Our sales organization is ready -- not only ready, but are going out, getting new business.

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I would say '24 was a year -- most of '24 was a year in which we were focused on our existing customers, getting them through the cyber incident, retained a lot -- most of our customers, if not all, except for some of the episodic customers. We're getting them back. Doing a lot of work the whole area of e-commerce to attract those customers back. The episodics that left us.

And I would say the business is quite stable today and the strategic plan that we executed for '22 and '24 will have very good momentum into '25 to '27 planned led by, I think, a great team. So with that in mind, again, sorry about the way in which segment accounting changes came out.

But I'm not sure there's any good way of really presenting the significant change and having a call right after the press release goes out, 1.5 hours. But anyway, we will listen to investors. We'll take your ideas very seriously. We're open to all dialogue with investors. And of course, we're very, very excited about the addition of KKR to our investor base and the three new Board members we have.

So look forward to seeing people at conferences, Ron, Graham, Susan going out to some conferences, I think, next week. And please feel free to reach out to us. We will answer your questions also, of course, in compliance with FD. Thank you very much.

Operator

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

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