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EDITED TRANSCRIPT

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OVERVIEW:

Company Summary

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CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

Mike Sarcone *Jefferies - Analyst*

PRESENTATION

Mike Sarcone - *Jefferies - Analyst*

Okay. Good afternoon, everyone. My name is Mike Sarcone. I'm an analyst on the US medical supplies and devices team.

And with us today, we have Henry Schein. And from the company, we've got Stan Bergman, CEO; Ron South, CFO. And we've also got here with us Graham Stanley and Susan Donofrio in the IR function.

So we're going to kick it off. I think, Stan, you had some short opening remarks you wanted to make.

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

Thank you, Michael. Thank you for hosting us. Hi, everyone.

Henry Schein, it seems like there a lot of people in the audience that know us. But for those that don't, we're the largest provider of products and related services to office-based practitioners. That's dentists and physicians in the alternate care site, but also today, alternate surgical centers.

We have a business -- a growing business in the home care arena. We do some government business and generally, providing products and related services to the office-based practitioner and the alternate care site.

Our strategy is built on four key components, we call it BOLD+1. The B stands for building high-growth, high-margin businesses in the specialty dental and medical products arena and in the value-added service arena. So on the dental side, we're particularly strong in implants; bone regeneration products -- I believe we're the number three in the world -- endodontics products, where we're #2 in the world, we believe; and a series of value-added services, including the provider of dental practice management software.

We believe we are the largest provider of this kind of software and related services, businesses such as financial services for the -- for our customers. It's leasing and credit card processing and other kinds of value-added services that are used by our customers in their offices. We are in the business transitional practices businesses, where we're involved in buying and selling practices generally, consulting services, revenue cycle management services for our customers, and so on and so forth.

The high-growth, high-margin business combination for us in 2024 was just over 40% of our operating income. Our goal is to take it to 50% during the strategic planning period, which is '25, '26, and '27, which will mean that about half of our income is coming from these high-growth, high-margin businesses.

And we estimate another 10% or so from our corporate brands. Those are our own brand products. Roughly 60% of our income we're shooting for, maybe a little bit more than that, this strategic planning cycle, '25, '26, '27, will come from products and services that have a high margin and are really operated under our own brands. That's the B.

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The O is to operationalize, optimize our core distribution business, where the goal is to provide services in the distribution arena more efficiently and driving customer satisfaction at the same time. And the L is the leveraging of our relationships.

We have about 300 different businesses all related to doing businesses -- business with office-based practitioners and related customers. And we want to leverage the relationships we have in these different businesses.

So we may have great relationships in the distribution business, but customers are not buying software from us. We may have a customer that is buying the software from us, but not their financial services. They may buy their consumables, but not the equipment. And so, we want to take these relationships and leverage them.

We've done particularly well with large customers, DSOs and IDNs in this space. And the D, of course, is the digitalization of dentistry and medicine where digitalization has driven interoperability in devices.

We have a network -- clinical workflow network in dentistry that is growing. And essentially, we want to use the new technology to create connectivity to our customers so they turn to Henry Schein for driving efficiency in their practices through digital technology.

We will also introduce our new global eCommerce platform, GEP, in the United States sometime in the third quarter -- in Canada first and then the United States. It's operational in the UK and Ireland already, doing quite well. It's an Amazon-like experience for office-based practitioners.

And our +1 is, of course, advance our relationships with our various constituents, our suppliers, our customers, investors, our team, and the work we do with dentists and other professionals and generally in the communities we're in to connect us to our constituents.

For the first quarter, we were quite pleased with our results. And of course, they're published. Ron can give you more information. But generally, we had sales that were growing.

And if you take -- particularly if you take out the impact of PPE, our EPS was growing, too. We turn our profits generally into cash. Our goal is to have earnings growth of high-single digits, low double digits, which we hope to return to, after we've consolidated our business from the cyber incident, which took place in October of 2023.

Michael, that's a brief highlight of what I wanted to say about where we are with Henry Schein today.

QUESTIONS AND ANSWERS

Mike Sarcone - *Jefferies - Analyst*

Thank you, Stan. Very helpful. Appreciate that. Maybe getting into some of the discussion topics. Earlier in the year, you re-segmented how you're reporting results and how you're operating the business. Can you just give us an overview and maybe talk about the evolution of the business and what led to those changes?

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

Yes, Michael. So our goal is to, as I indicated, to drive our distribution business; sales and profitability; our software businesses, which was primarily HenrySchein One and some other technology services; and then our own brands, which is essentially this high-growth, high-margin products.

So from a management point of view, we have two significant groups at Henry Schein. We've broken the business into two. It's really clustered -- our business is clustered around these two groups over the last few years, and we formalized that early this year with Andrea Albertini, an executive for 13 years at Henry Schein, somebody that grew up in the equipment and distribution field in medical and dental, running our global distribution groups, dental and medical, and also leading our HenrySchein One technology platform.

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On the other side is Tom Popeck, who leads our owned brands. These are our specialty products that are under our owned brands as well as our own brand corporate brand products, essentially our private brand, which is today very much a brand in dentistry and medicine. So, it's broken into two.

Our segment accounting reflects the management of the business as outlined. And we implemented the segment accounting effective January of 2025 with some information given, of course, related to this in the fourth quarter of '24.

Mike Sarcone - *Jefferies - Analyst*

Got it. And just a follow-up there. Do those changes come with any meaningful shifts or adjustments in the organizational structure or the way you're managing the business? Just trying to get a sense for if there's any commercial or operational risk we should be mindful of looking out for?

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

No, I don't think, Michael, there's any operational risks with this move. It was put in place effective, as I noted this year. But the organization has been clustered around these strategies, and we formalized the responsibilities, as I noted, this year.

I don't think this, per se, presents any operational risk, although what it does is it clarifies goals and aligns those goals with our strategic plan, the BOLD+1 initiative.

Mike Sarcone - *Jefferies - Analyst*

Understood. That's helpful. And then maybe just one on the macro trends. I guess can you give us your latest views on demand trends?

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

Yeah. So Michael, in the dental market in the United States, we believe visits are consistent with prior years, perhaps leaning towards a positive number of visits in the United States to dentists.

I think what's important to realize is that there has been a view by dentists that they're looking for more value in selecting their products. So I think there's been a movement towards our own brands and other -- and more competitively priced brands. But generally, the visits to dentists are stable in the United States.

On the trend side, equipment has been quite stable, of course, very, very lumpy from quarter-to-quarter. But it's quite stable in traditional business. There are some build-outs we are seeing now, a little bit more life in build-out arena.

Digital technology can be a little bit more lumpy because it can be dependent on the current market price of digital equipment. But essentially, the Equipment business is pretty stable as well in the United States.

Outside of the United States, it's very much dependent on a market-by-market basis. But I would say Europe, in Germany, it's quite stable. There are markets such as France and Italy and Germany that can be a little bit lumpy. But essentially, the markets in Europe are stable from visits to practitioners.

Australia and New Zealand had some challenges the previous year, but it seems to be stabilized. Brazil is actually doing quite well as a market. Although intuitively, we may not see it that way because the Brazilian economy has been -- has seen challenges.

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On the specialty side, the US market now is quite stable, although the high end of implants is still a bit under challenged. But it's -- the US market is somewhat stable now, maybe slightly growing. The other important market for us is Germany, which has been doing quite well as all of this is information that we provided in our last call.

On the software side, the demand for our software continues to grow. Although I caution investors to understand that there's a movement to a SaaS model, which is more recurring revenue -- monthly recurring revenue rather than a one-time sale, as you would see with on-prem software. But essentially, the technology demand continues to increase quite nicely. And I think that's a synopsis of the market as we see it today.

There is I mean, a concern a little bit with the higher interest rates. But I think dentists and physicians are understanding that interest rates are here to stay.

And what I didn't mention is the medical market. That in the first two quarters can obviously be somewhat lumpy depending on the respiratory situation, and it was quite strong recently. So I think we showed some reasonable growth in the medical market, which is generally quite a stable market.

Mike Sarcone - *Jefferies - Analyst*

Okay. Great. And then I did want to shift to maybe talking about some of your financial goals. Maybe you can discuss your long-term financial goals? I mean, you briefly highlight what you're expecting in '25. But in particular, interested about how you're thinking about 2026.

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

Certainly, Michael. As Stanley mentioned, we remain committed to our financial goals of a high single-digit, low double-digit earnings growth.

As it applies specifically to 2026, we haven't provided 2026 guidance yet. But when we do contemplate what that guidance should be, I mean, there's a number of factors we'll be looking at. I think one of the more important ones will be -- and this is something Stanley touched on, what kind of momentum are we getting with those high-growth, high-margin businesses?

What kind of momentum are we seeing with the dental specialty products, our implant products, our endodontic products? What kind of ongoing earnings growth are we getting with our technology business? How are our value-added services doing? Those are all significant contributors to our operating income and will be -- the type of traction and the type of momentum we see with those products and those businesses will be important when determining what our 2026 guidance will be.

We'll also be taking into consideration what are we seeing with some of the restructuring initiatives and how well have we executed against completing some of those restructuring initiatives and to what extent can we apply those cost savings on a full year basis to 2026. If you recall, we originally said that we expected $75 million to $100 million of cost savings through those initiatives.

And we are pretty confident that it's going to be towards the high end of that once we complete all of our actions before the end of this year. So that we'll have -- we should get some benefit going into '26 from that.

Another is, we haven't really talked too much about our new shareholder, KKR, and what kind of value creation ideas are we going to be able to apply as we work with them to increase the value of the business. And to what extent does that impact 2026?

Also new product development, we've got -- we launched a new implant product last year, the Tapered Pro Conical. We also have some new technology offerings through Henry Schein One, and we've got to look at what kind of -- what's the pace of uptick with those new products and what will the impact be on 2026 for them.

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And then lastly, what all this sits on is, what are we seeing in our markets? Dental markets this year and last year have been growing anywhere from 0% to maybe 1%. What kind of growth are we going to get in our markets? Because that will be the baseline on which we can then apply those levers that we control, but we'll apply that to those market growth rates. And that will really be -- the output from that will become our '26 guidance.

Mike Sarcone - *Jefferies - Analyst*

Okay. Very helpful. And I did want to hone in on this year. I guess, what can you say about the quarterly cadence of earnings growth? And how comfortable are you with 2Q consensus estimates?

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

Well, as we mentioned when we provided our original guidance, we did expect our 2025 results to be more heavily weighted towards the back half of the year. And that really just shows ongoing recovery of some market share, but also ongoing cost savings that we expect as we work through some of the restructuring initiatives.

Mike Sarcone - *Jefferies - Analyst*

Got it. And you mentioned the restructuring program. So I did want to ask around that. When you think about optimizing the business, can you elaborate on any discrete projects or areas of focus where you're optimizing?

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

Well, some of these are very much -- a lot of our restructuring is consistent with some of the leverage ideas that, our leverage thoughts that Stanley shared earlier.

I'd say last year, a lot of the savings came from a reduction in force, just resizing our payroll with where we were in terms of volumes in the distribution business. But what we've been working on more this year is -- I'll use our endodontic business as an example.

We really built our endodontics business through a series of transactions. So historically, it has been more like an endodontic portfolio of businesses as opposed to an endodontic business. What we were able to do was we were able to purchase the minority shares of a couple of minority partners we had in two of those endodontic businesses.

And now, we can really approach it more as a group of endodontics products, more as a product category. We've been able to close one facility, move the production to another facility, and just begin leveraging those assets a little more efficiently. So those are the types of initiatives that we're really trying to focus on as we work our way through 2025 and going into '26.

Mike Sarcone - *Jefferies - Analyst*

That is helpful. And I guess as you're thinking about '25 and '26, can you help us think about the split between some of those discrete items and projects, like the one you mentioned, versus how you're thinking about just a continuous process improvement focus?

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

Well, I think the line is blurry there, right? I mean, I think that we are -- especially since we are a company that's been built through a series of acquisitions over time, you're constantly going back and seeing, okay, how do we synergize some of these things a little better? How do we bring these in?

So some of that is through specific actions. Some of that becomes a little more -- almost more organic to the process as we work through it. So we are in this continuous improvement process.

I do think it's going to be helpful, and we're going to -- we'll probably talk a little more about the KKR investment. It's helpful having someone like KKR, who our -- we've got a couple of members on the Board now who can provide us with a fresh set of eyes around some of these -- the approach we've taken for some of this -- like you said, a continuous improvement. And I think a fresh perspective is always helpful when you're trying to complete these types of savings, right?

Mike Sarcone - *Jefferies - Analyst*

That is helpful. I did want to touch on KKR. Maybe you could talk about just your relationship with KKR, how that's evolved, and then the strategic rationale behind the investment.

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

So Michael, KKR has invested quite heavily in Henry Schein. The original 10% or so was through the market. They've invested another 2.5% through stock. We sold them. And they will have the option -- they do have the option to buy another 2.5%, taking them to about 15%.

They have two directors on our Board, one Max Lin, who's quite well versed in healthcare in general; and Dan Daniel, who has had quite extensive experience in the dental space when he worked at Danaher prior to -- at the time when Danaher owned the dental business, which was spun-off.

They are supporting in a significant way our BOLD+1 strategy, focusing quite a bit on the distribution side, helping us with projects such as margin management, sales focus, and some expense management activities. So that's where the work is. They're also partner through another business in HenrySchein One, and they're quite active in that as well.

Mike Sarcone - *Jefferies - Analyst*

Okay. And they obviously have a large portfolio of companies. Do they bring to the table any ability for negotiating leverage with maybe some of your suppliers? Would love to hear how you might be able to leverage that?

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

Yes. I think that's the particular area of expertise we have in the expense management arena that can help us in certain areas where we may not have necessarily huge volume in areas where we do have significant purchasing power already. Obviously, that can bring us some help.

But in areas where we don't have a lot of purchasing power and they in the aggregate with the other portfolio companies do, that can be quite helpful. And we'll be through that right now with them. It's a very good relationship. They're quite capable, and they're working well with our team.

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Mike Sarcone - *Jefferies - Analyst*

Okay. And just on that relationship, can you share anything around timing or milestones or KPIs that we should be on the lookout for in the near term?

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

We have not provided any specific guidance. We will in the future, but I think I can't do that today.

Mike Sarcone - *Jefferies - Analyst*

No problem. All right. And I did want to ask about the HenrySchein One business. I was hoping maybe you could comment a little bit on what growth in that business looks like, your outlook. I believe you're consolidating some projects to get efficiencies there. So what should we be looking out for when it comes to growth drivers for the business?

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

Yeah. So Michael, one of the key goals of every practice, dental practice, in the developed world, particularly in the United States, Canada, Australia, New Zealand, and the UK, a couple of other countries, is to drive efficiency through the practice and assist with providing -- and seeking goals to increase quality of care.

Best way to do that is through digital technology. We are advancing and are doing very well with our cloud-based system, which is growing very well in these markets, as in the United States and entirely outside of the United States.

And this base system practice management system is connected to their electronic medical record, which in turn is connected to certain devices, whether it's scanners, or the ability to provide information to laboratories digitally. All of this is designed around the notion of efficiency in the practice, providing a better patient experience, and clinical improvement.

It combines nicely with some of the AI offerings that we provide today. HenrySchein One has been doing quite well. As I noted earlier on, the way in which we recognize income has changed from an on-prem sale to recurring revenue, which is very profitable.

In fact, the way it works is you have a fixed cost and then you provide more -- you obtain or you generate more revenue as a result of the SaaS-type model. So that is all working well. What we're doing also is HenrySchein One, through various mergers and acquisitions over the last few years, has an extensive portfolio of, for example, revenue cycle management and other kinds of services.

We're aggregating these onto our common platform, so we're seeing a little bit of erosion of sales in some areas in the sales side. But we're picking it up in the revenue cycle management side, and the profits continue to do quite well in the space as we drive the conversion from one type of methodology to the other, although the sales may not look as good as they really are. But the number of units we're selling is growing very nicely across the board with Henry Schein One.

Mike Sarcone - *Jefferies - Analyst*

Great. Very helpful. And I just want to ask a question on capital allocation. I guess can you comment on your current strategy? Would just like to get a sense of how you're thinking about and prioritize capital allocation between M&A, share repo.

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

Certainly. So we do generate a fair amount of cash over the course of the year, and we're able to apply that cash back into the business in a number of different ways.

A typical M&A year for us, say, going up until through 2022, was we would do somewhere between $300 million and $400 million of acquisitions a year. 2023 was a heavy acquisition year for us simply because we saw a lot of great opportunities that helped us really accelerate our strategic plan.

And we made some significant investments in a couple of different implant companies. We made a great investment in a home solutions business as well as in our practice transitions business on the value-added service side. So that was a $1 billion-plus acquisition year for us.

Since then, I think we've been returning more to that $300 million to $400 million cadence, which would be more normal. But having said that, if we see the right opportunity that helps us extend our strategy, then we will definitely consider it, right? It's just we don't stop just because we get the $400 million, but it typically tends to be $300 million to $400 million of M&A.

Share repurchase, we had typically done $300 million to $400 million. We think right now, the stock is at a very good price. And all of our accretion models show that in this interest rate environment still that our stock is a good buy.

So we did $161 million of share repurchases in the first quarter. Although historically, we were also in that $300 million to $400 million range. But obviously, if we did $161 million in the first quarter. We are exceeding that pace right now.

So that's what we see as really the best use of capital. Obviously, we need to take some of the cash we generate, invest it back in the business, fund some of the working capital, fund some other areas of the business that we have, but that would be the normal cadence at this point.

Mike Sarcone - *Jefferies - Analyst*

Okay. Very helpful. And we only have about 40 seconds left, so I figure I'd have an open-ended one here and maybe let you share what you think is most misunderstood about the Schein story among the investor community?

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

That's hard to answer. But the BOLD+1 strategy has worked. It's going to continue to work, growing high-margin, high-growth businesses, connecting relationships that we have in different parts of dentistry and medicine, and aggregating share of wallet with our customers. That's where we're heading.

Of course, doing it in conjunction with efficiency, driving expenses down, improving customer satisfaction, and investing in digital technology, whether it's our electronic medical record, electronic clinic -- electronic digital clinical workflow, or our GEP, global e-commerce platform, ease of doing business with us. All of these are areas that I think we will see growth and profitability in the years to come.

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