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EDITED TRANSCRIPT

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OVERVIEW:

Company Summary

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CORPORATE PARTICIPANTS

Andrea Albertini *Henry Schein Inc - Chief Executive Officer – Global Distribution and Technology*

Tom Popeck *Henry Schein Inc - Chief Executive Officer – Henry Schein Products Group*

Ronald South *Henry Schein Inc - Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

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

PRESENTATION

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

I'm happy to introduce the team from Henry Schein. We have Ron South, CFO; Andrea Albertini, CEO of Global Distribution and Technology; and Tom Popeck, CEO of the Henry Schein Products Group. Thanks guys for coming out and good to have you again with us this morning.

QUESTIONS AND ANSWERS

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

I've got a long list of questions, audience, if you've got stuff, throw up your hand. But I want to sort of start off high level and ask about dental trends. And this might be for Andrea or Tom, but coming out of 3Q earnings, we really saw, call it, stronger traction across the international markets relative to the US, not only for you guys, but I would say across a handful of different dental companies.

And what I'm asking or going after is, has that trend of stronger international versus US, has that remained intact here as we think about kicking off 4Q? Have you seen that reverse? Any signs of change or maybe the US picking up, it would be helpful to level set and start off there?

Andrea Albertini - *Henry Schein Inc - Chief Executive Officer – Global Distribution and Technology*

Can I start?

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

The floor is yours.

Andrea Albertini - *Henry Schein Inc - Chief Executive Officer – Global Distribution and Technology*

Thank you, Jon. So Q3, we announced a good quarter both in the US and internationally in dental. The merchandise growth was -- in local currency was similar, but it's true that some international markets showed very strong growth. We had strong growth in Canada and Brazil in some European countries, especially Southern Europe or Australia.

We also said during the earnings call that October was on a similar trend, both in US and international. We didn't disclose any further information on Q4, but we have reason to believe that the trend is stable. When you talk about equipment, this is where international was stronger than US.

Again, very strong growth in some markets. Germany is one of those, Canada again, Australia again. But we expect to continue growth also in the US in Q4. The driver of the growth this year in the US is mainly the digital equipment, but Q4 is also a good quarter in terms of seasonality.

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So we expect overall to see the entire category growing.

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

Okay. Helpful. And maybe just to push you a little bit. So to your point, it seems like more of the same so far in the fourth quarter. When we think about international versus the US.

How about if we think about, call it, the distribution business versus more of the specialty products? And has that changed? And really what I'm trying to drill down on is in the US, it seemingly has lagged. But when we think about clear aligners and maybe implants? Are there any signs of life in the specialty business, right, that we're seeing in the US specific to some of those products?

Tom Popeck - *Henry Schein Inc - Chief Executive Officer – Henry Schein Products Group*

Yes, I could speak to that.

Andrea Albertini - *Henry Schein Inc - Chief Executive Officer – Global Distribution and Technology*

To Tom.

Tom Popeck - *Henry Schein Inc - Chief Executive Officer – Henry Schein Products Group*

Very similar trend with Andrea, Europe is strong, Brazil is strong. And in the US, it's better on specialty, it's better for sure. And I think that momentum will continue.

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

Okay. And it's just a factor of what they're -- just the consumer getting a little bit on better footing, little bit more confidence? Is it some of the rates coming down?

Tom Popeck - *Henry Schein Inc - Chief Executive Officer – Henry Schein Products Group*

I think that in general, the market is stable. We're taking some market share with some new products that we have out in the marketplace. But I think generally overall, you're seeing the market just continue at the same momentum it's -- I don't really see any meaningful changes.

Andrea Albertini - *Henry Schein Inc - Chief Executive Officer – Global Distribution and Technology*

And this is a good point also for distribution. In a stable market, we said that in Q3, we gained market share, and we believe we are in a good momentum to continue to capture market share.

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

Okay. Very helpful. I'm going to bounce around Ron, I'll jump over to the savings initiative and really coming off the call, this is probably where I got most of the questions around the $200 million of net improvements -- net cost improvements over the next few years. How do we think about those savings?

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And I guess a couple of questions, does it call for something upfront in order to get the $200 million net? And then the other question that I'll bolt on is the cadence of the pacing, is it linear? Is it back-end weighted? Any color there?

Ronald South - *Henry Schein Inc - Chief Financial Officer*

Thanks, Jon. I think there would definitely be some costs we incur. I mean is it linear? Is it consistent with the pace of the cost savings? Unfortunately, the answer to that is it depends.

One of the things we're looking at now is we've identified a lot of what we believe are value creation projects coming out of these initiatives and it's a matter of phasing them in a thoughtful way now that if we try to do them all on day one, where we're not going to get them all done.

We have to phase them out because just for resources, if anything else, and so we'll take that into consideration when looking at our '26 guidance when we provide '26 guidance in February. But I do expect some net benefit in '26 from these, I would expect that we would be able to grow on that benefit as we go beyond 2026.

But that's part of the -- we've completed the assessment phase, and that's really the phasing that we're starting to go through right now and the planning we're going through right now to assure that we can execute on this in an optimal way.

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

Okay. So when I hear that in my words, not yours, it seems like it's got to be a little bit back-end weighted, right? I mean, if you're saying you're going to see something in year one and it's $200 million over the next few years, it would just seem as a byproduct of that one?

Ronald South - *Henry Schein Inc - Chief Financial Officer*

Yes, we will get benefit -- we will definitely get benefit in year one, but we should be able to grow on that as we go.

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

Okay. And they want me to ask some tough questions, so I'll preface the next one with –respectfully in front of it. What was KKR able to go in there and find where if you do the math on $200 million over the next few years, and I'll make it linear, $60 million, $70 million a year on a $13 billion top line, it's like 50 bps of OM expansion per annum, and you guys have had a hard time expanding OMs but what were they able to uncover that Henry Schein wasn't able to really identify and pinpoint on their own?

Ronald South - *Henry Schein Inc - Chief Financial Officer*

I would argue that these were areas that we had identified, but it was really working with KKR, specifically with Capstone, sharing with them what we saw as the possible and then working with them to identify a couple of different consulting firms that really -- we kind of split the consulting firms up between one working on gross profit optimization, the other one on G&A optimization.

And I would say the fundamental thing and the thing that we -- I don't want to say was counterculture to us. But historically, we have looked at the business as now you have two guys up here who all -- everything in the business rolls up between the two of them, right? Historically, it was broader than that.

And it was, you have a piece of business, you go drive to this goal, you have a piece of business, you go drive to this goal. If everybody executes on that, we get really good growth.

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What we haven't done -- and a lot of our restructuring was within your business, what restructuring can you do. What we're doing now is we're looking more, I would say, across the businesses. What assets what infrastructure can we share across these businesses that historically, that was not our approach to running the business.

That's something that's always been -- we've had out there, and we needed someone to kind of help us pull the trigger on that. And I think working with KKR, working with some of the specific consultants that we have spent a lot of time with over the last three to four months, we've now gotten to the point where we feel confident we can execute on these things and deliver the savings that we talked about in the call a couple of weeks ago.

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

That was great color. Maybe one more, Ron, to tack on and then I'll pivot and go to implants and specialty. But just you might answer this in your comments. It seems like it's going to be both a COGS and OpEx thing, right? I mean some procurement in COGS, I'm guessing a little bit more heavily weighted to OpEx just as we try to think through $200 million?

Ronald South - *Henry Schein Inc - Chief Financial Officer*

Yes. We haven't really specified but we're really focused on the aggregate amount. But you're right, within COGS, there's a number of initiatives ranging from how do we drive a more dynamic pricing environment.

And that doesn't necessarily mean price increases, that means perhaps even price decreases that can drive even greater volumes for us. It also means how do we drive getting more business towards owned brands, private label that don't necessarily grow revenues but could grow gross profits for us. And then how do we work smarter with our suppliers. So it's a greater win-win for us, but we still drive a better gross margin percentage there.

And then to your point, too, there's also some G&A savings, some significant G&A savings that we think we can drive. But there is -- we haven't given the numbers around those two separately. We're really focusing on the aggregate amount because in some cases, there's a bit of an overlap on that as well.

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

Understood. Let me pivot and then I'll come back to some P&L stuff. But over to implants, you guys had really good results in the quarter, mid-single-digit growth. Value was up low double digits. Premium was up low single digits.

I think we all want to ask, hey, when does premium come back? But is there a structural thing in the background here where GPs are doing more implants. They're doing like single tooth implants, simpler procedures. They have a greater propensity to maybe use a value. But it's not a bad thing, right? I mean it's aiding market growth.

But just to level set for everyone, is this more structural in nature, and we should see that divergence between value and premium maybe persists for coming quarters and years.

Tom Popeck - *Henry Schein Inc - Chief Executive Officer – Henry Schein Products Group*

Yes. So there's no doubt the value segment is growing faster. And we've made some meaningful investments in the value segment over the last couple of years with acquisitions, BioTech in France and our S.I.N. business in Brazil.

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I see those trends continuing, value is good for those GPs that are looking to save some money, but also for the DSOs, they're shopping price and looking for the best value. And I think it's a trend that's going to stay.

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

Okay. Tapered Pro Conical, I think you guys gave some specific numbers around it, one-third of US implant revenue if I've got that correct. Where can that go over time? Where do we start to see some resistance? Is that half? Is it two-thirds?

Tom Popeck - *Henry Schein Inc - Chief Executive Officer – Henry Schein Products Group*

Yes. Keep in mind that prior to Tapered Pro Conical, we didn't have an implant in the US that played in that market, and that market is 50% of the market. So we're one-third. A lot of that was just the turn of customers from our older design to the new design. There is no reason that over time, that shouldn't be 50% of our revenue.

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

Okay. So an ongoing tailwind there. One more for me. Did you guys get a different Tapered Pro Conical approved in the S.I.N. division earlier this week. I mean we're trying to track what we can through the FDA. Sometimes it's a little noisy, but did that come through earlier this week? And if so, maybe talk to how this is additive to the portfolio.

Tom Popeck - *Henry Schein Inc - Chief Executive Officer – Henry Schein Products Group*

Yes, we did. The new product line is called Versalis and it's out of our S.I.N. business in Brazil. It really meant to broaden our portfolio here in the US to make sure we could offer our customer base, all the options they need.

We're really excited about it. It's launching in Q4 and we really think that the combination of that new product and our current product line really positions us well.

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

All right. Let me continue to go down this road, and I'll round out specialty. It's not that I don't want to give Endo a lot of time, but Endo is sort of Endo, right? I mean it's resilient. It's not very discretionary.

Do we think about that in terms of ongoing mid-single-digit growth. And let me just tack on Ortho while I'm there, how do you guys view that business today, right? I think, Ron, your comments maybe nine months ago was we've got to do -- we've got to make some changes. We've got to at least lose less money, how do we think about that business going forward? Is it essential to Schein specialty?

And really do we think about you retaining the ortho business?

Tom Popeck - *Henry Schein Inc - Chief Executive Officer – Henry Schein Products Group*

Yes. So let's talk about Endo first.

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

Okay. Endo it is.

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Tom Popeck - *Henry Schein Inc - Chief Executive Officer – Henry Schein Products Group*

So we've done well in the Endo market over the last couple of years. We're positioned -- we went from a trailing position a couple of years ago to a solid number two position in Endo, mid-single-digit growth, as you mentioned. And we've done some unique things, very similar to implants. We have a premium line. We have a value line.

We're selling through our distribution team over the last 18 months or so, which has been received very well. So this omni sales channel approach we have, we've taken a product, putting different brands on it, different pricing, different value propositions. Endo is a great example. We see no reason why that shouldn't continue to be low, mid-single-digit growth going forward.

On Ortho, clarify orthodontics because we also have an orthopedic. But in orthodontics that's a much smaller part of our business. And that business has now stabilized from where we were before. And there's really two parts of it. There's the core bracket business, which is a good business, profitable business.

And then the aligner business. And the aligner business is tough unless you have some real scale. You see that with many of the many of the players that talk about aligners, I don't see orthodontics as really being the major driver of our focus. I think that implants endodontics, orthopedics is probably our focus.

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

Okay. Very good color. Let me pivot, I'm going to touch on the global e-commerce platform. And then Ron, I want to go back to some numbers. But help us out with the e-commerce platform.

I think you rolled it out in the UK and Ireland, it's undergoing sort of a phased launch in North America. Just any more details you can provide on this initiative? And help us with the results to date that you've seen.

Andrea Albertini - *Henry Schein Inc - Chief Executive Officer – Global Distribution and Technology*

Sure. So you are correct, Jon, we started the rollout in the UK and Ireland. And obviously, because it is a more controlled market to launch a new platform, but the goal is to have a global platform. The reason why we are launching a completely new e-commerce environment is to create a better customer experience, and it's not only to capture the independent shoppers with e-commerce like features, but it's also in the normal interaction with our loyal customers. Driving content, driving better tools for them to place orders and to find products in our portfolio. So it's a better customer experience, and it's not only dedicated to pure e-commerce kind of, yes, customers.

The results, UK went live at the beginning of the year. So it's the only market where we have a few months of stability and data and learning both on the customer side, but also from our team because this is a new tool, very advanced.

And the results are very encouraging. We see -- first of all, we did a survey on customer experience, on customer satisfaction, and it went very well. But also, we look at KPIs, of course, that help us to understand how much customers are spending time on this, how do they find products, what is the average size of the order, the GP. So the results are very encouraging.

We are running it out now in US and Canada with a staged approach to make sure that we have the resources to take care of our customers when they transition. And we will continue steadily across the next few months in US and Canada and then go to Europe, the rest of Europe next year.

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

What does this mean for numbers? And Ron, I don't know if this goes back to you. But if dollars were to shift to the global e-commerce platform, I guess there's something like an incremental argument there, right? You said just buying behavior and some shoppers. So maybe they weren't Schein and now they are.

But if someone were to take a portion of their Henry Schein business and bring it over to the e-commerce platform, what does that mean for you guys in terms of margins? Is it retaining that business but a slightly lower margin? I'm just trying to think through that from a P&L perspective.

Andrea Albertini - *Henry Schein Inc - Chief Executive Officer – Global Distribution and Technology*

So I don't believe we ever gave numbers related to this, but think about the platform, as I said, as a tool to capture new sales because it's more sophisticated. And this is one goal. But it's also a tool to deal with our normal customers, give them a better customer experience, have more opportunities to drive incremental sales with tools like suggested product or customer that normally buy this also buy that.

Or you may want to consider this alternative that allow us to push product that we believe in the segment in the category are more profitable. So it can be a good tool to increase the size of the basket but also the profitability of the basket.

Plus it's more efficient because you have the workflow of the order that is digital. So less people that touch the order, less errors and more efficiency.

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

So if you're giving back something in price, you might be able to make it back a little bit in other areas in terms of when we get to like a net margin of it?

Andrea Albertini - *Henry Schein Inc - Chief Executive Officer – Global Distribution and Technology*

Yes. And also the margin is not worst online. It's not.

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

It's not edited --

Andrea Albertini - *Henry Schein Inc - Chief Executive Officer – Global Distribution and Technology*

It's not. There are areas where we may want to promote, but there are areas where we are able to do more margins.

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

And do you have a rough -- when you look out a number of years, is this 5% of the business? Is it 40% of the business? Just any thoughts on how this ramps in coming years?

Andrea Albertini - *Henry Schein Inc - Chief Executive Officer – Global Distribution and Technology*

We are -- with the legacy product, with today e-commerce platform, we are already at a very high percentage in the US so electronically, we get -- I don't want to give a percentage without checking the numbers, but a very high percentage of all that are already coming in electronically so it's just an improvement on --

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

It's just an improvement in next gen or in iteration. Okay. Ron, I'm going to pivot and I'm going to go to implied 4Q '25, and I know you love it when I'm up here and I start doing implied numbers, which is so much fun. But the math for 4Q '25 revenue, it really is interesting. You look at the midpoint of the new revenue guidance, which you increased on the call.

And I land at 4Q '25 revenue implied at around 5.5% to 6% year over year, you can always cut me off if I'm off there. But that shows ongoing momentum. I think clearly, we saw the business gain traction 2Q to 3Q, but this would again imply a further improvement into 4Q. What's behind that? Earlier these guys referred to ongoing share gains.

Let me pause there, and then I'll tack on one more question there.

Ronald South - *Henry Schein Inc - Chief Financial Officer*

I think it's truly a reflection of the momentum we saw in the third quarter. When you look at the third quarter, just as reported consolidated revenue versus the second quarter revenue was $100 million higher. So we have a good sequential growth as we go from Q2 into Q3, and we believe we can continue to grow into Q4.

And this momentum we're seeing some recovery, some good recovery we had in dental merchandise, both in the US as well as outside the US Q4 is typically a heavy quarter for us. On the equipment side, we think we can continue with that. We're comfortable with what we're seeing in terms of the backlog on standard equipment and what we can monetize in the fourth quarter there.

Technology has had -- Henry Schein one has had a series of very good growing quarters for us, and we think that continues as well. So when we modified the revenue guidance for the full year, we took all that into consideration in terms of how we thought we could get to that number by the end of the year.

So I think it's really the momentum that we see going from Q2 into Q3 and continuing into Q4.

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

The tack-on question would be the momentum to your point, 2Q to 3Q to 4Q is that mid-single-digit figures sort of the right jump-off trajectory to think about as we go into 2026.

Ronald South - *Henry Schein Inc - Chief Financial Officer*

Well, I mean, we'll have to take that in consideration when we do our '26 guidance, right? We'll provide 2026 guidance at the end of February. That will clearly be something that will influence that guidance. What kind of momentum are we seeing through Q4, not just in Q4 in aggregate, but like during the quarter, what kind of increases are we seeing month-to-month as well? And does that translate to ongoing perhaps accelerated growth in 2026.

So that will be a key factor when determining our '26 guidance.

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

Okay. Helpful and again, guys, if you have any questions, throw up your hand. You mentioned, Ron, in answering that last question, the momentum in technology, really good segue. That's my next topic. Maybe talk to some of the tailwinds in the business, the internal growth accelerated the past two quarters to high single digits.

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What's been the driver behind that and the sustainability of that high single-digit growth profile?

Ronald South - *Henry Schein Inc - Chief Financial Officer*

It's really in the core practice management systems. We're seeing some revenue growth in both -- especially on the -- in the cloud-based systems, both in the US, which is the Dentrix Ascend product and outside the US in Dentally.

And I think that as we continue to see transition in some cases, existing customers who are transitioning from the on-prem system to a cloud-based system, but also just ongoing new customers who are signing up to that cloud-based system is driving a lot of that growth.

We're seeing double-digit growth in practice management systems, driving that high single-digit growth, for example, the 9% growth you saw in the third quarter. So there are other modules not growing as quickly, but the core practice management systems are what's driving that growth. And we think that in spite of the fact that it gets tougher when you have -- in the US, we have greater than a 50% market share in practice management systems.

So a lot of this comes down to how do you increase share of wallet? How do you add components to your standard system that customers like and allow you to increase that price going forward as well. So how do you increase that share of wallet while also driving efficiency in your customers' practices is really the key approach to making sure that we can continue with that revenue growth.

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

And I feel like for a little while in this division, you were trying to prune and clean up maybe the margin profile a little bit. Now you got the revenue growth at your back. So do we think about sort of two tailwinds here. Revenue growth is performing better and also the accompanying margin profile is favorable?

Ronald South - *Henry Schein Inc - Chief Financial Officer*

Yes. Do you want to take that Andrea?

Andrea Albertini - *Henry Schein Inc - Chief Executive Officer – Global Distribution and Technology*

I'd like to add something on what Ron said before because the strategy is around growing our core practice management business, especially the cloud version. And we are -- as Ron said, we are growing double digit since a couple of quarters. But also to start to add subscription-based solution around an integrated in the practice management system.

And we announced many solutions this year or -- yes, early this year, Reserve with Google, Detect AI, more recently, revenue cycle management solutions. These are all solutions that help our customers to improve efficiency, but also running in general, better practice and are profitable because they are subscription-based solutions.

We announced last week an agreement with Amazon Web Services for generative AI. And this is a unique partnership that will allow us to release in the next few months new solutions in this direction, like voice script like the period chart enhanced by AI, these are all solutions that will increase the penetration of our ecosystem around the practice management software into the practice.

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

These are incremental opportunities --

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Andrea Albertini - *Henry Schein Inc - Chief Executive Officer – Global Distribution and Technology*

Yes. I mean it will be part of this sustained growth in the high single-digit plus that Henry Schein One is having. And efficiency, yes, we drove efficiency that made the bottom line growing faster than top line, but we are also investing in continuous development.

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

Fair enough. Let me do the long-term EPS growth and then hopefully round out the discussion with medical. But I think there was a prevailing thought in the earnings call, it -- look, you got this $200 million over three years, hey, if nothing else, and I do the math on the $200 million, you've got to land at a high single-digit plus earnings per annum.

And I think that math does hold, but when I normalize, Ron, for the remeasurement gain this year and last, the figures you provided, your year-to-date EBIT is basically flat year over year and you've got the benefits of, call it, the Schein restructuring. That's been ongoing.

So help us out, like can you grow EBIT from core ops and if so, what's the rate of revenue growth needed because it does look like in your guidance, you do have EBIT growth coming back in, in 4Q '25 versus 4Q '24.

Ronald South - *Henry Schein Inc - Chief Financial Officer*

Yes, a lot of moving parts. Let me digest that a little. But what I will say and just repeating back something that we said in the prepared remarks last week was that we believe that the benefits that we can derive from the value creation initiatives will get us back to our long-term goal of high single digit, low double-digit EPS growth, right?

When you look at our markets, they have been relatively flat. We've been talking about that throughout the day today with some investors. But we feel like to get -- so we feel like to get to our growth goals, we have to take a lot of initiatives internally, things that are company specific to get there.

But we think we're taking -- we're making those moves to get there. So as we get to '26, and you mentioned the remeasurement gain, when we look at the '26 guidance, we'll take into consideration that revenue momentum that we were just talking about earlier.

We'll take into consideration what our best estimates are in terms of the net benefit we can get from value creation in 2026. We'll call out whatever our assumption is around remeasurement gains. And to the extent that, that remeasurement gain differs from what we recorded in 2025, we'll make sure that we normalize for that and provide some kind of pro forma growth number associated with it.

So those are all areas that we can take a hard look at going forward. But you're right. I mean the revenue growth will be driven by the ongoing momentum we see, what's our assumption around market growth in '26.

Right now, it's a relatively low assumption on market growth. There are pockets of good growth out there. We've talked about European implant growth. We've talked about some other areas where we know we're taking market share, but perhaps those markets are growing slightly better as an example. But those are all areas we'll be taking into consideration.

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

And one more, Ron, just the year-to-date flat EBIT normalized for remeasurement but growth coming back in EBIT 4Q '25 versus 4Q '24. I know we don't have numbers in front of us, but what's driving that? What's behind it? Is it the better revenue environment? Is it --

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Ronald South - *Henry Schein Inc - Chief Financial Officer*

Yes. I mean you look at -- just using the third quarter as an example, strip out the remeasurement gains from '25 and from '24. Non-GAAP operating income grew about 4.5% versus the prior year. And that -- I think we're starting to see some of the benefits from the restructuring we've done.

We're seeing some margin improvements, our margin stabilization, I'd say are on the gross margin side, but we're seeing some of that operating margin improvement start to come back a little bit. So that's really the key drivers. So how do we leverage the infrastructure that much better going forward to drive greater operating margin expansion.

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

That's a great point. I guess -- that's a great point. Like I was giving you flat nine months, but to your point, if we actually isolate the first six months, it would be down, it would be up 4.5% in 3Q and then you have more of that continuation in the 4Q.

Ronald South - *Henry Schein Inc - Chief Financial Officer*

That's the run rate kind of going forward, right now, we hope, right.

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

I always -- I never allow enough time for medical, but let me hit on it. You're selling stable products like point-of-care diagnostic tests and injectables in the physician office and vaccines like flu, it did have some turbulence coming out of COVID. And now it seems like it's stabilizing. I don't want to overthink this segment. Is that the right way to approach it? And maybe we're back to that more stable underlying mid-single-digit trend specific to medical?

Andrea Albertini - *Henry Schein Inc - Chief Executive Officer – Global Distribution and Technology*

Yes, I believe so. I mean we have a 4.7% growth in Q3. So we are in the range that you mentioned the mid-single-digit range. We see more stability still on the -- of course, we have these flu-related products seasonally that in Q3 was a little bit of headwind because of point of care tests and flu vaccine.

But we have also very good momentum in a segment like Home Solutions that is growing very fast and pharma that in Q3 was strong. But to your point, yes, we see more stability, and we believe this is in the range that we said in the past that was mid-single digit plus.

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

And anything changing in the competitive landscape within Medical?

Andrea Albertini - *Henry Schein Inc - Chief Executive Officer – Global Distribution and Technology*

I mean there are a lot of announcements from our competitors, but -- I mean, we benefit from a trend. And the trend is the acute setting procedure are shifting more to alternative care and non-acute setting, and this is where we play. So in our space, we see stability. We see a tailwind. Again, home solutions is really a high-growth business that we are -- we continue to invest in.

So far, not a big change, but let's see what the future brings.

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

Last one for me, guys, and I'll make sure the audience is okay. But Well, let me go to capital allocation and M&A. On the cost savings, you talked a little bit about it being a function of streamlining past deals, better integration, leveraging back-office functionality. As you go through that process, does that mean like M&A might pause for a little bit? You were very active a year has that changed from a year ago as you want to clean that up, and you can still go after share repo, et cetera, or can you still be acquisitive throughout that process?

Ronald South - *Henry Schein Inc - Chief Financial Officer*

No, I believe we can still be acquisitive. I mean it has to be consistent with the strategy. I think that -- but we're still going to be opportunistic. If we see an acquisition opportunity that can provide us -- I've always said, I want acquisitions to make the rest of the company better.

And if it's something that drives strategy, whether it makes us even better integrated vertically or it gives us a meaningful expansion in a specific product category that can drive more revenue growth, then that's an area that we will still be interested in doing.

But I think we have to be mindful that as we go through the process, we're going to go through in the next couple of years, that we also do it in a way that makes us even more efficient integrating some of these acquisitions more so than what we've done historically.

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

Okay. Fair enough. Gentlemen, thank you very much for your time. Great to see you.

Ronald South - *Henry Schein Inc - Chief Financial Officer*

Thank you, Jon.

Andrea Albertini - *Henry Schein Inc - Chief Executive Officer – Global Distribution and Technology*

Thank you.

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