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EDITED TRANSCRIPT

HSIC.OQ - Henry Schein Inc at Bank of America Global Healthcare Conference

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OVERVIEW:

Company Summary

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

Editor

PRESENTATION

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

(technical difficulty) we have CFO, Ron South, and Head of Investor Relations and Strategic Financial Products Officer, Graham Stanley. Thank you both for joining us.

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

Thank you, Allen.

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

Really appreciate it.

QUESTIONS AND ANSWERS

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

Ron, would love to get your latest thoughts on the macro environment across your different regions. The US is cutting interest rates. It feels like things are maybe evolving a little bit. But how has the macro environment evolved at all since the beginning of calendar 2025?

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

Certainly. So I think that I'll kind of address first -- within the macro environment in dental, what we're seeing is -- and people can see the same patient traffic data that's out there that we see. I mean, patient traffic has remained relatively stable, I think, over the course of the year. Patient traffic is often the best barometer for what you're going to see in terms of merchandise sales and what kind of churn do you get in merchandise. You mentioned the lowering of interest rates in the US.

We view that as an important macroeconomic factor in two regards. One is kind of in the more short-term micro perspective; it does provide perhaps opportunity for a little more lift in equipment sales. Some of the larger dollar equipment sales are typically financed, either through leasing or through some form of financing. So you could see a little bit of a lift in equipment revenues if, in fact, interest rates continue to come down.

I think in the longer term, the kind of macro effect of lowering interest rates could also result in an acceleration of the build-out of some new practices, of new dental practices. Frequently it's the DSOs that have kind of lead the way with that new construction and the DSOs themselves are often owned by private equity. And as those interest rates come down, the hurdle rate in terms of that rate of return, that required rate of return on that investment for them becomes a little easier to achieve, and you could see an increase in those de novo practices being built.

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That helps us obviously with the build-out of those practices and the equipment sales that would be associated with it. But even after that, the DSOs are confident that they can fill those practices with new patients and that churn of new patients going through actually kind of expands the market, gives us greater opportunity in merchandise sales. And I think that's an expansion of market that has been missing, a meaningful expansion of the market that has been missing over the last couple of years.

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

And also, on that, I mean, internationally, I'd say that we are seeing maybe some pick up a little bit internationally, particularly in Mainland Europe. If you remember, 18 to 24 months ago, there was sort of the whole energy price increases that were impacting the overall economies. That's now annualized out. So I'd say I think the international business is on a slight tick up in trajectory.

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

And then, Ron, around your comments around DSOs. If we look at BofA's economists, we're expecting at least one more rate cut in December. As I think about -- or try to qualify the comments you just made, are you seeing more de novo builds more DSOs looking to build things out versus maybe three months ago or six months ago? And is that informing your commentary around the outlook for digital equipment or your thoughts around digital equipment? Or are you just saying illustratively if interest rates go down, that could be a driver of those things?

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

I think at this point, it's a little more in terms of what we are forecasting. But I will say we do track what we call -- we have a service that helps our customers design, redesign their practices typically in a sense that they can add a chair or do something and make a meaningful change to the layout of their practice.

That particular service that we are providing has seen double-digit growth year-over-year. Every month -- through July, every month that we had -- that we track this with the one exception being May, which was the month where I think there was probably the greatest uncertainty around what was happening with tariffs, right? We saw a return to that double-digit growth in June. That's also an indicator, I think a similar indicator because that's also typically a reconstruction cost that perhaps the practice will be financing. And if they're seeing that they think they can get that done at lower financing costs and they're going to do so.

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

Okay. That's helpful. And then you did some promotional activity in the second quarter. And then on the 2Q call, you talked about some positive trends in July. Can you talk about how things are going relative to your expectations into the second half of the year around that new cohort of customers that you've added? And how is retention of those customers into the back half of the year relative to your expectations?

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

Certainly. So yeah, I mean, what we said on the second quarter call was that the promotional activity that we did in the second quarter we believe when we look at our July results, was beginning to pay dividends in terms of getting some sales growth in July. These programs are established to -- we identified existing customers or by customers, I mean, at least practices who are buying some merchandise from us but at very low volumes.

And we're looking for opportunities to get greater share of wallet with those customers through this promotional activity. But we were doing it in a way such that we're getting them to commit to purchasing from us for a period of time, whether it be a 6-month period up to a 12-month period, and they could earn a rebate on the tail end of that if, in fact, they fulfill their commitment.

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We also have had some success in adding experienced field sales consultants to our sales force. And what you can do is during that commitment period, you can work with these customers to really kind of get them to better understand what are some of the services that Henry Schein can provide them that could help them run more profitable practices.

And I've used this phrase often where you look at these are so-called episodic customers usually. They buy something from us, then they might buy something from one of our competitors and then something from an online discount or they kind of work their way around looking for the best price on various merchandise. It's our job to educate them that we can really help them run a more profitable practice as opposed to simply trying to sell that product at the lowest price. That's not really what our mission is.

And so by having them engage with the field sales consultant, we can begin to understand, okay, what are the areas of your practice that you would like to improve? What are the pain points? And it's not going to necessarily be the fact that they would like to buy certain gloves or cotton balls for a slightly lower price. The bigger pain points are going to be what's the reimbursement rate they're getting from the insurance carrier, how frequently are they getting paid? What's the rate of the recovery of the receivables? Are they fully staffed with dental technicians and hygienists.

Those are all things we can help them with. And when we can get the opportunity to engage with them and get them to understand that these are areas where we can help them run a more profitable practice. We feel like we can make those customers stick but you need that period of time, of that commitment where you can engage with them. And you got to have the resources to engage with them, and we feel like we're well positioned to do that right now. We're not going to hit on 100% of these to stick. We know that. But we think we can be successful with it in a meaningful way that we can get a meaningful increase in market share.

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

That's very helpful. And I want to double-click on something you mentioned around ramping up new field sales force personnel. Can you talk about the timing of when you started to add new employees there. And then how long does it take to ramp them maybe back up to their peak sales? Or just how do you think about how long it takes when you're adding those new hires to get back to the sales they had before?

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

Well, I think a good point of reference on this is when we hire an experienced sales rep, the expectation is that there's -- they could probably bring -- in the short term, they can bring probably -- and I'm just giving you my personal estimate here, say, 50% to 60% of the business that they have. We do offer these reps a guaranteed minimum commission typically for about the first 12 months that they're with us. And so our expectation is over that 12-month period, they can get back to a full book of business, whether it be the customers, previous customers they had for new customers that they're able to engage in the territories they're at.

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

And then, the first part of that question was around like the timing of additions or is it just consistent?

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

It's been relatively consistent over the course. So there wasn't like a period of time when we got a big chunk of reps that came in at the same time. It's just that our recruiting efforts have been more successful. There's been disruption in the industry. I think everybody knows that. So it wasn't unusual at all for us to gain experienced reps from competitors. But we also would occasionally lose experienced reps to competitors. There was a monthly report that we, that we manage, we could see what the net number was. That's been a little more of a one-way street most recently.

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

Okay. I want to switch gears and talk about 2026 a little bit. Now, you've been at a lot of other competitor conferences, and I feel like every analyst has asked this question in a different way. And so I'll try get another different way to ask it. 2025, you talked about being this base year and you hope to grow at least high single-digit EPS against that number in the '26 or into the future. For 2026, the Street is at 8%. I'm not asking for guidance, but what does the model need to look like in order to achieve 8% or higher EPS growth? Where are the biggest swing factors as we think about the model that would be required to get us to at least 8%?

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

Yeah. There's a number of factors that we have to take into consideration when we establish guidance for 2016. And we'll look at a variety of things that are both macro driven as well as what's happening specifically within the company, right?

So obviously, the foundation that we start with will be what do we think those market growth rates are. Are we seeing any kind of lift in core dental coming from the lowering of interest rates or we'll have to monitor what's happening with the unemployment rates in the US because that's often the best barometer in terms of access to care. Most people are getting their health and dental insurance through their employer, and so we'll monitor what's happening with unemployment rates as well.

But at the end of the day, what are we seeing in terms of both the run rate and market growth in dental medical, specialty technology and then what should we be expecting in terms of how that then goes into '26. We'll then also take a look at what do we believe in the forecast on interest rates and what's going to happen with interest rates and what impact might that have for us that could be beneficial into 2026. So the macro factors, interest rates, unemployment and then the market growth.

And then the things that are specific to Henry Schein, we mentioned the value creation projects in our prepared remarks last month. So how is that assessment -- and we're in that assessment phase right now around gross profit optimization and G&A optimization. First of all, to what extent do we have some level of comfort in the estimates that we can get out of that, that we think we can deliver, but what's the timing of that delivery? How much of that will benefit '26?

As we said last month, we expect some benefits to begin in 2026 from these projects, but they will continue into 2027. So the full number that we expect to achieve will be achieved over a period of time. So how much of that will benefit 2026. So those will be the principal things that we'll have to take into consideration when establishing 2026 guidance.

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

Okay. That's helpful. And then, you just touched on some of the direct costs and SG&A optimization projects. A question on KKR Capstone. At a recent conference, Tom Popeck said and I'm quoting here, there's a lot of opportunity to consolidate back office functions and do some offshoring.

And so Ron, as we think about the comments that you and other executives at Henry Schein have made over the past couple of quarters. And you and I have talked about this for a while, but I'm curious, as you're thinking about how the relative size of the opportunities to cut costs evolved over the past couple of quarters. And then, related to that, what should we expect to hear on the 3Q call around that project?

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

Well, you talked about the last couple of quarters. I want to make it clear that the value creation projects that we're assessing right now are incremental to the restructuring that we announced last year where we said we could take out $75 million to $100 million of costs. And we've identified the activities we have in place right now, we're confident will get us to an annual run rate of approximately $100 million or more of savings by the end of this year. These value creation projects are incremental to that.

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The restructuring we've done historically has been within each business unit. You look at a business unit and you say, okay, we've done some acquisitions in your area, there's some redundant costs, to rationalize some costs or some things we can do and we do that in pockets. So it's more of a grassroots effort of restructuring. And it's been effective in terms of reducing costs, and Tom made the perfect reference to this.

This value creation project is now making us kind of step back and say, okay, how can -- as opposed to me addressing you in your business and you and your business, how can we -- look also to the table, how can we share resources across all these businesses more effectively? And that might be internal, it might be offshoring. There's a number of things that we have to explore, all those opportunities.

It's been an area that a lot of companies have done successfully, and so we don't have to necessarily reinvent the wheel here. We just want to figure out what makes most sense for us in terms of how we can establish some sustainable savings going forward.

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

Makes sense. And then, as far as the third quarter call, should we expect what type of incremental commentary, if any, should we expect on the 3Q call? Or is this something that may be at a later date?

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

Yeah, I can't promise you right now what we'll say exactly. It will come down to what's our confidence level and what's coming out of this assessment phase. But I think that we'll try to address some range of savings that we think could be achieved in the long term.

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

Okay. That's great. And then, talking about -- there's been a little bit of chatter in the channel about select price increases, the impact of tariffs. I think the ADA survey was saying that certain manufacturers or certain suppliers were raising prices. Can you talk about how widespread that has been? And then, are there opportunities to shift customers? Does this give you an opportunity to engage with customers around shifting to private label?

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

Yes.

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

Would love to hear how it has done that and kind of what those conversations have been like.

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

Yeah, to kind of step back from it a little bit, tariffs affect us in two ways. In some cases, we are the importer of record, and that is principally impacting our private label. So there's cases where we have a contract with an OEM who's manufacturing our private label products. We are the importer, we're responsible for the tariff. We have found some ways that we can defer those effects, mitigate those effects somewhat. But in some cases, it does require us to consider price increases.

We can only do those price increases if we think the product remains competitive. And what's happening with the branded products and what's happening with the tariff situation with those products, right? So there's a kind of a multifaceted dynamic there that you have to manage in order to determine when is it appropriate to increase prices or not.

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Then, there's a situation where our suppliers are the importer of record, they're incurring that additional cost and then they're determining how much of that cost they're going to pass on to us and in turn, we have to determine how much of that cost we can pass on to our customer.

You put that together and what you were talking about. To what extent, given the breadth of product offerings that we have, can we redirect, if necessary, customers from products that are seeing a significant price increase to one that they might find the pricing to be more attractive. And we'll have that alternative available for that.

So that's part of the strategy of this. Let's say, we've always tried to maintain as broad of a portfolio as we can. We really have kind of avoided exclusive arrangements or exclusive type of commitments so that we have, our customers can buy an alternative that, in fact, that's better for that. And so it's up to us to try to leverage that relationship as well as we can with our customers.

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

Switching gears to the specialty business. Implants have been relatively robust, especially on the value side. Can you talk about how -- remind us how quickly are you growing your implant business? How fast do you think the market is growing? And then, if there's a delta between the two, can you talk about where you think that incremental share is coming from?

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

Yeah, implants, you really have to -- there's a couple of different ways of looking at this. I think, we're seeing slightly different dynamics in the premium implant market versus the value implant market. And we're seeing slightly different dynamics in the North American market versus the European market. I'm not intentionally -- I am intentionally not mentioning the Asian market because we're a very small player in the Asian market.

But I'll start with the US, where we're seeing better growth in value implants than we are in premium implants. We've had pretty good success in selling some of the new value implants that we've been able to add to the BioHorizons portfolio through the SIN Brazil transaction. They had an FDA approved value implant and we're selling that in the US now.

Our DSO customers who are looking to expand into doing more and more of the specialty type of procedures, we've been able to work with them to train and certify their GPs so that they can do implant procedures. And if they're going to do that, they're quite happy doing it with a value implant. They're typically going to do a single implant, a relatively straightforward procedure that they can use a value implant. And you mentioned market. I think the premium market in the US has been relatively flat. And I think what we're seeing on the value side from a market perspective is probably it's growing a little bit.

So in Europe, we're seeing, I would say, a slightly steadier growth. And I do think in Europe, we're actually taking some market share there. I think we're seeing Camlog doing well on the premium side and then Medentis, which is a smaller player for us on the value side also doing well. But I think that in Europe, there's a little less of an out-of-pocket responsibility to the patient versus in the US. So it has been a more consistent growth product for us in Europe as opposed to the US where you can get some volatility coming from any kind of macroeconomic conditions because of the responsibility on the patient for a lot of the out-of-pocket cost there.

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

I've asked this question a couple of times to you and your peers, and it doesn't seem like there's a lot of good data on it. But a large Medicare Advantage plan was paying for dental implants and now they're no longer paying for them. And that was a relatively material growth driver, I think, for the industry in 2024. Have you seen any impact in 2025? Is that something that you could even observe within the data? Curious if there's anything to call out there.

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

I just want to sort of like parse out who's paying for what in terms of the data, we have the overall market data. I'm sure it's having a slight headwind. But as Ron said, the US market is probably flat to slightly down. But one single payer is, I don't think it's going to impact the overall market.

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

Got it. And then, Ron --

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

I'm sorry, remember as well with an implant, the insurer is not covering the full cost typically at the implant. So the out-of-pocket spend for an implant in the US, even if you do have insurance, it's not fairly small. The out-of-pocket part is quite significant compared to what's been insured.

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

Got it. That's helpful. And then Ron, around the DSO growth in implants, you talked about getting more GPs involved in doing implants. Can you talk about, as you think about the addressable market and your DSO customers, how quickly has the addressable market of certified GPs increased? Give me whatever timeline if you have any information or any data on it. Like how big of a driver is that to growth within your value in your plan?

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

Well, I mean, I don't have any hard data in terms of market data there, but I do -- when we look at our customer segmentation in terms of who are we selling implants to and in coming off a relatively low base from a couple of years ago because DSOs weren't buying a lot of implants then. But it's been very good growth. And it's the root of a lot of the growth that we're seeing specifically in the value implant side. Most oral surgeons out there are likely going to work with the premium implant. They're doing more complex surgery.

And the thing to remember with a value implant or the premium implant is that it isn't so much that -- the premium is made with much better material, and that's what makes it premium. The premium really comes from assistance with surgical planning, some of the follow-on service that might be necessary that an oral surgeon would want when they're taking a more complex procedure versus if a GP is going to take on a more straightforward single implant in a healthy patient. They can do that with a value implant as they don't need -- they don't require all that follow-on service.

If they have a patient that has a complicated jaw structure or certain health issues and it's going to be a complex implant procedure, there's a very good chance they're still going to refer that procedure to an oral surgeon, but they're going to take on the more straightforward one. So what we're seeing is that the expansion in the market, expansion and growth in that market tends to be more disproportionate to the value of implant versus the premium.

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

Okay. Great.

Let me just quickly ask one question on -- regarding markets. Obviously dynamics as (inaudible) to maybe offer in optimal value base out there. Do you see any targets for that you see right now?

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

No. I mean, I don't want to kind of get into the competitive environment just yet at this point in the quarter. I think we'll get a chance to see how companies come out with their results in the quarter, and we'll get a better feel for what are the trends have been within the various categories of implants as well as in the geographies.

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

And then shifting gears a little bit again around gross margins. I think we talked a lot about this on our follow-up call after the quarter. There's a lot of moving pieces on the gross margin side. There's global pricing, the sales initiatives and then the shift from premium to value implants. And it's a lot easier to see sort of how those things are impacting the business with the new segmentation. Can you talk about the major drivers of gross margin in the second half versus the first half and how we should think about, in broad strokes, where that gross margin level is in the back half of the year versus the first half?

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

Sure. I mean, what we mentioned in the prepared remarks is that we were expecting some stabilization in distribution gross margins going forward. That requires some stabilization in glove pricing. We did talk about the -- we have continued to see declines in the market price of gloves, even though the costs have stabilized. But we do expect some gross margin stabilization there. We also won't be doing -- we're returning to a more normal level of promotion activity as we get into the second half of the year. So in terms of our own specific initiatives, that will have less of an impact on gross margin as well.

And then, you get back to mix. We had a softer quarter in the second quarter this year than the prior year. For example, some of the value-added services that can be a little lumpier in the revenue base, specifically our practice transitions business, which is very much like a brokerage business and is driven by volume of transactions. And if they had fewer transactions helping sell group practices to the DSOs of one quarter versus another that's going to show up a little bit. And that's a very high margin type of business. So product mix is also part of the equation.

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

Going back to the high-level comments at the start of the conversation around interest rates, would lower interest rates potentially be a notable accelerant for the practice transitions business in your view?

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

Potentially, yeah. Potentially.

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

And if there was there any way to kind of quantify sort of the revenue of that specific business, the margin and how quickly that could grow if things maybe returned to some type of prior time when rates were lower?

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

I think it's difficult to specifically quantify it. But I think directionally, it would be fair to expect that a meaningful decrease in interest rates could help accelerate some of the sales of practices to larger practices or to DSOs because one is assuming that they are financing those transactions.

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

Right. Okay. And then I want to talk about the medical business for a little bit. One of the biggest questions we get, and it seems to be a very moving target type of topic is vaccine demand, both for COVID vaccine and the flu. What are you seeing in the third quarter? What's embedded in the guide? And can you just talk about are you noticing the evolving consumer views? Obviously, the administration has their view on vaccines. How is that impacting your business? And what are your expectations that are embedded in the guide for vaccine demand?

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

So by far, the most important vaccine we sell is flu. We sell actually -- we don't sell a lot of COVID vaccine. There's not a lot of margin in it. It's actually a relatively difficult product to store properly and ship properly. So there's not a lot of -- we don't sell a lot of COVID vaccines. But flu vaccines, we do. I think we're probably the largest seller of flu vaccines to the physicians than anybody out there.

My expectations are we will see a relatively normal demand for the flu vaccine given that we are distributing the flu vaccine through physicians, not through retail sites. And physicians are the ones who are providing advice to their patients as to if they need a vaccine or not. And so I think our expectations are we'll see a relatively normal vaccine season. We'll see.

Having said that, there could always be some impact, but early indications that I have heard is that demand would be fairly normal with the physicians. Keeping in mind while vaccines are an important product category for us, it is now a relatively small part of the business versus, say, 10, 20 years ago when it was a greater percentage of the business, but our medical business has grown so much that it has actually become a product category for us as opposed to what's really driving sales there.

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

It's also a relatively small margin product as well, almost [COVID vaccine] margin. Flu is also lower margin, yeah.

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

Got it. And as we think about just broader utilization trends in the Medical segment, pricing trends, can you talk about the trajectory of those pieces, what's embedded in the guide and whether or not you're seeing any change in utilization over the course of the year within that segment?

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

Within Medical itself?

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

Yeah.

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

I would say no. I mean, I think when you break down what are the some of the more important product categories in our medical business, vaccines being one, pharmaceuticals being another. And those are pharmaceuticals that are being -- we sell pharmaceuticals that are administered in the physician office, right? They tend to be restricted to injectables. So something you have to go in, you've got some kind of inflammatory issue, they can deal with it with a type of injectable. The physician is buying that from us and is applying it to their patients in the physician office.

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So it's pharmaceuticals, it's point-of-care diagnostic kits. So point-of-care diagnostic, someone feels ill, they go to a doctor, they're going to get tested for flu, they're going to get tested for COVID, they're going to get tested for Strep. Those are all diagnostic kits that we sell to the physician. I'm not expecting a significant change in the utilization of those products outside of the ordinary course of, is it a heavy flu season? Is it a lighter flu season, what's happening with respiratory illnesses over the winter? Those are all things that we track in anticipating demand for those products, and I think we'll continue to track it the same way.

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

I think, in the last couple of years, the medical business has been impacted by a couple of sort of like normalization type of situations, whether it be the pricing, some shift from branded pharmaceutical products to generic pharmaceutical products, where there's a strong flu season or a weak flu season. I think probably Q2 was one of the first quarters we've had in a while where you can see the underlying growth in the business. I think our medical business grew about, like 6%, something like that. It also includes -- that, that also includes a significant home health business, which is now about a $400 million business, and that business is growing at a faster pace than the rest of the business.

So the shift from the acute care setting to the alternate care setting is still taking place. Albeit quarter-to-quarter, you can get some distortions depending on, sort of like what sort of the patient traffic is. But long term, we see this is a very, very good market.

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

With the last few minutes here, I want to pivot to the technology business. Now, at your last Investor Day, you talked about a long-term goal of 8% to 12% growth, the technology business. It's been growing slower than that in the near term. Can you talk about what is required to get that business to grow closer to those growth rates? Could it be solved with investment, with product or is it a market thing? From our perspective, it seems like you have this really significant captive audience that you can go after. But what is the disconnect between that growth rate and kind of the recent growth rate that you guys have?

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

I think an important thing to look at when looking at our technology business is that its core product is the practice management system that we've been selling for years to the dentist now, right? And so the original product, which is still a very popular product, is Dentrix, which is an on-prem practice management system. And we've evolved and developed a product called Dentrix Ascend, which is a cloud-based system that is also kind of a back-office management process for the dentist. Those products are both growing easily within that 8% to 12% range that we talked about.

Where we're seeing a bit of a drag on revenue growth comes from some, I'll say, kind of peripheral products around patient experience modules where we've had kind of multiple brands, and we've been looking at consolidating and we are consolidating some of those brands. We also have a product called dental plans, which is a product that essentially you can -- if you don't have dental insurance, you can buy into this dental plan and participating dentists will provide you with certain services. We're seeing some kind of stunted growth in some of those areas. So that's kind of bringing down the growth of that segment. But the core product itself is within that 8% to 12% and, in some cases exceeding that 8% to 12%. So that gives us a great deal of confidence there.

One of the things that our Henry Schein One team has done a very good job of in the last 12 months is identifying costs that we're supporting some of the products that we're not growing as much and pulling back on some of those support costs that has not resulted in significant revenue changes of those products that has increased the profitability of that segment.

So you look at the second quarter results as an example, Henry Schein One had 6.6% growth in revenue, but it had over 30% growth in operating income. So they've learned to run a little leaner with these products that aren't growing as fast and putting a little bit of pressure on that top line but still delivering very good bottom line growth. I believe that as we complete some of the things that we need to do in order to consolidate some of these other brands and other areas will begin to see the opportunity for the overall growth to get back to those expected growth rates.

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

That's great. And then we have, I think, three minutes left. Here's maybe more of a media question around capital deployment. You recently announced the $750 million share repurchase program. And if we look at just the comments you've made over the past few earnings calls and investor conferences, it seems like there is an opportunity to consolidate maybe some of the acquisitions you've done over the past few years, some of the back office functions, things like technology, things like that.

As we think about capital deployment for the next couple of years here, is it reasonable to assume less of an emphasis on M&A given the focus of cost optimization and maybe more on things like share repurchases or is that not the right way to think about how you're approaching capital deployment?

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

Well, I don't think we've changed our approach at all. But I do think that -- our M&A approach has typically been opportunistic, right? We've always got feelers out with owner operators. We're in situations where we believe they have a product or service that is complementary to what we do and would make Henry Schein a better company. And we'll continue to do that. We'll continue to be opportunistic. We also see opportunities with the share repurchase and that we believe we have a depressed share price right now. And so we have been a little more aggressive in share repurchases in the first half of this year.

So getting the authorization from the Board for an additional $750 million of share repurchases really gives us that option, right? If we are in a period where we don't see as many M&A opportunities, we have the opportunity to deploy more capital to share repurchases, especially where the shares are trading, we see that as an opportunity. And so that was the discussion with the Board, was we wanted to have -- we want to make sure we maintain the option of doing that with capital, and the Board was very supportive of that.

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

That's great. So I think we're out of time. Ron, Graham, thank you so much for the time, and thank you, everyone in the audience for joining us today. Thank you.

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

Thank you.

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

Thanks for hosting us.

Editor

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