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EDITED TRANSCRIPT

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OVERVIEW:

Company Summary

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

CONFERENCE CALL PARTICIPANTS

Mike Sarcone *Jefferies - Analyst*

PRESENTATION

Mike Sarcone - *Jefferies - Analyst*

Okay. We'll kick this off. Good morning, and welcome to the Jefferies Global Healthcare Conference in London. My name is Mike Sarcone, and I'm an analyst on the US medical supplies and devices team here.

And this is a session with Henry Schein. And from the company, we have Fred Lowery, CEO; Emmanuel Caprais, CFO; and Graham Stanley, who heads IR. Gentlemen, thank you very much for joining us today.

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

Good morning.

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

Yes. Thanks for having us.

QUESTIONS AND ANSWERS

Mike Sarcone - *Jefferies - Analyst*

Awesome. I guess just to kick it off, Fred, we can start with you. You've been in the seat about nine-months now. I guess maybe give us an update on how your experience has been in the first nine-months and any surprises you've experienced to the upside or downside versus your expectations coming in?

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

Yes. Thanks for having us today. Excited to be here. And I would tell you, coming into the role, I was very excited to be -- to join Henry Schein, an iconic brand in the space and really the leader in this space. And so, I was excited about the opportunity. But I'll tell you, eight-months into the role, I'm even more excited than I was coming in the door. And it's because of a few things.

I really -- one, I've obviously learned a lot more about the business and about the industry, but I see even more opportunity, and it starts for us with our technology business. I mean we have a great presence there. We're seeing very good growth. And what's really exciting is that the capabilities that we're adding to the platform, to our PMS platform, are really being accepted by customers.

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And I think that bodes well for continued growth in that space. And ultimately, it becomes the centerpiece of the platform that we're building to support our customers. And so that we are more than just a supplier, but more of a partner in helping them improve their practices. And it starts with our technology business, but it continues through our service business, through our Specialty Products business and, of course, to our distribution business.

So I'm even more bullish eight-months into the role, and we're making good progress. We're taking market share in dental, and we're committed to deliver on our value creation actions that are helping us expand our operating income. So, I feel like we're in a great spot and the future is bright.

Mike Sarcone - *Jefferies - Analyst*

All right. Great. Good to hear. And maybe on the high-level strategy question, I wanted to touch on Schein's BOLD+1 strategy. A big piece of this, though not the only piece, is shifting the mix toward higher growth, higher-margin businesses. I guess, can you give us an update on where Schein stands in that journey today? And what are the competitive advantages that support that shift?

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

Yes. So, our stated goal was that we would get to over 50% of our income coming from high-growth and high-margin products by 2027. And we're on track to do that. We will exit this year at that rate. But I would also say it's not done. I mean that mix shift that we're seeing to our high-growth, high-margin businesses will continue.

I just spoke about our technology business, our PMS platform, where we are seeing good growth, both from a share of wallet standpoint and from new placements of our cloud-based platform, both the Ascend and Dentally platforms. So that will continue, and we will see good growth in our specialty products, which is another portion of our high-growth, high-margin business, where we're seeing good growth in our implant business in Europe. We're seeing good growth in our value implant business in the US.

We're very excited about the SIN 360 business, and we're seeing new products being launched in that business. And so we feel good about us continuing to see that mix shift into high growth, high margin as a part of our operating income.

Mike Sarcone - *Jefferies - Analyst*

All right. Great. And maybe we can loop in, Emmanuel, you're a few weeks into the role. I guess, first, can you talk about what attracted you to Schein? And then second, can you talk about how your background and experience make you well positioned to execute on key priorities at Schein?

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

Yes. Thank you, Mike. So, I think what attracted me was to join a market-leading health care platform. We have a very capillary distribution network. We have -- Henry Schein has a lot of competitive advantages. And so being able to contribute to that was really attracting to me. And so driving growth, driving profitable growth, driving cash generation are going to be my focus in supporting Fred to implement his mission and his vision.

I think in terms of my industrial background, I come from a place where we drive profitable growth. We are very focused on cash. And so that's what I intend to implement and to help drive at Henry Schein. I think this is a company that has a lot of really strong positions and very passionate people. And so I think that when you have a lot of competence to work with, you can direct and guide people in a more effective way and make up a little bit for that maybe developing market knowledge situation that I'm in.

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So I think that's a great base to work with. And so looking forward to add and drive profitable growth as well as cash generation.

Mike Sarcone - *Jefferies - Analyst*

All right. And I guess just to squeeze one in. We saw an update yesterday from Schein about taking out some of the -- or taking out the remeasurement gains and rebasing some of the P&L. I guess can you speak to the timing around that and what you hope to accomplish?

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

Yes. So I think we -- I realize that the remeasurement gains are providing difficult readability of legibility of the numbers. It's very lumpy. So it didn't really belong to operational performance. So that's why we decided to exclude them for our results. We think it's going to provide a more direct read on how the company is performing.

And so for us, that was the first step, small first step to show the operational improvement and the operational discipline that we want to instill in the business. And so yes, I think it's not a -- I wouldn't say it's a major change. It's just providing better visibility to our operational performance. And then I think that's -- this is what we intend to do. We intend to drive really good results and then be able to simply explain how we're doing that.

Mike Sarcone - *Jefferies - Analyst*

Makes a lot of sense. And then with that new rebased guidance, right, and again, you got this question multiple times on the 3Q call, about the commitment to double-digit EPS growth. When we think about the base for '26, I think you still have the $0.19 tariff benefit in there. Do we think about double digit off of that base with or without the tariff benefit in there?

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

So let me start by saying that we will not be providing 2027 guidance. I think it's way too early for that. And the teams -- most importantly, the teams are still working on our 2027 budget. For sure, we confirm the commitment to grow double digits in 2027 and beyond compared to 2026. Obviously, when we made that commitment, we didn't have the tariff refund. So that applies to the base without the tariff refund.

And as far as 2027 actual guidance, we're still working on it. And so I think it's too early for me to comment out of the -- what will be the growth out of the reported number at the end of the year.

Mike Sarcone - *Jefferies - Analyst*

Understood. Really appreciate the color there. And then maybe shifting to pricing. On the pricing dynamics, we've seen ongoing consolidation among dental customers via DSOs, and we've also seen increasing competition from online distributors. I guess, Fred, can you provide us an update on what you're seeing in terms of pricing dynamics? Has anything changed? And in 3Q, you called out healthy US dental merchandise growth primarily from volume and that's some share gains. So I guess any update ultimately on how you're thinking about pricing and Schein's power in the market?

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

Yes. Thanks for the question. One of the components of our value creation is around improving our ability to drive price. And so we've added capabilities in this area, both with people, tools and systems. And we are improving our insight and it's given us the ability to make

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better decisions to be able to both drive price up where we have opportunities and doing that responsibly and from a value standpoint, but also to be able to lower price in areas where it makes sense for us to lower price to be more competitive and take share.

So that is the major shift for us is that we've got better capabilities to be able to do that and provide better insight to our teams in that regard. But from a market standpoint, no, there's no real change in our -- in the pricing dynamic of where -- when our suppliers raise prices when there's inflation, we're able to pass on that price appropriately.

And in cases where our customers are looking for a better value or a lower price option, we have those options in our portfolio, which oftentimes are our own brands or private label products. So we're able to use those levers to both manage inflationary environment. And then also, just when I think about the DSO model, and you mentioned the consolidation of DSOs, we're very heavily weighted in DSOs.

And that's a great part of our business. It helps us grow faster, in particular, the emerging DSOs where you have practices that are in the 20-plus -- 20 to 80 range. Those practices are growing much faster. But from our perspective, while there may be some pricing or negotiating power that DSOs have, we actually have a lower cost to serve with DSOs because we don't have a sales rep going to every one of the offices that a DSO -- that's a member of a DSO.

And frankly, a lot of the DSOs don't want us to have sales reps going there because they have a formulary and they're helping to encourage and drive the formulary in their practices. So our lower cost to serve really puts us in good footing. And because of the DSOs' ability to manage their business, they're oftentimes very interested in buying more of our own brands, and that also plays to our advantage.

So the consolidation and the growth of DSOs is actually quite positive for us. But we're not just seeing growth in DSOs. As I mentioned in our call, if I look sequentially from Q1 to Q2 and from Q2 to Q3, we saw really good growth, growing growth in private practices. And so I think that bodes well toward our growth strategy also.

Mike Sarcone - *Jefferies - Analyst*

And you and I discussed this in a previous conversation but I think worth highlighting. Can you talk about this improved pricing capability? Does that span across all different channels and customer types from private practices to emerging DSOs and much larger DSOs?

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

Yes. I think there are opportunities to drive the appropriate price across multiple segments of the market. I mean clearly, there are competitive dynamics in any account, and we understand that and take that into account. And having better price discipline and price visibility allows us to be more competitive where we need to be but also drive the appropriate price where we have the opportunity and where the value is there.

Mike Sarcone - *Jefferies - Analyst*

Okay. Very helpful. And I guess I did want to touch on the macro. For dental, the macro environment has been a concern for a while. You said it's mostly stable, called out some pressure on discretionary procedure spend that you don't have a big exposure there. I guess can you talk to us about what you're seeing on the macro front? Any changes, either improvements or worsening that you can speak of?

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

Yes. No, I mean, we just spoke about this a few weeks ago. No major changes from our perspective, but we still see pretty steady market conditions and the market is stable. And for our business, when you think about patient traffic -- we think it is tied more toward employment rates because if patients have -- are employed, they have insurance, then patient traffic seems to be pretty steady.

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And that's kind of more of an indication versus consumer sentiment, which sort of impacts the more discretionary portions of the market, which we're not as heavily weighted from our portfolio standpoint. So we think the market is steady. And then the other part of it is that we're participating in the faster-growing parts of the market, both from a DSO perspective, emerging DSO perspective, but also in the technology business. It's a much faster part of the market from our perspective.

Mike Sarcone - *Jefferies - Analyst*

Yes. I do want to get into the technology business, but I did want to touch on capital equipment demand first. Maybe you can give us an update there as well on what you're seeing in the different parts of the capital equipment market.

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

Yes. So from an equipment standpoint, when I look at the order book for Q4, it is -- we're seeing sequential growth and year-over-year growth. And so we expect to see growth in equipment in Q4. Just remember, 2/3 of our equipment business is more traditional equipment and 1/3 is kind of more digital equipment. And I would say that on the traditional equipment side, we're seeing growth.

On the digital equipment side, we're seeing volume growth, but not overall revenue growth, and that is primarily because of the trend of seeing lower price entrants in portions of that market. But the volume growth on digital is actually very good for us because it says that customers are actually doing more in their practices likely, and we're seeing that benefit from a merchandise standpoint.

Mike Sarcone - *Jefferies - Analyst*

When you do see that digital equipment adoption, does it typically follow that you'll see a lift in merchandise sales after that?

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

I think in general, you see a lift in merchandise sales just because the productivity goes up.

Mike Sarcone - *Jefferies - Analyst*

Yes. Got you. And then on technology, that's been a nice source of growth for the company. I guess, what do you view as a sustainable growth rate in that business? And what are the major drivers of growth for you as you look forward?

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

Yes. We're excited about the technology business. Our PMS -- our cloud-based PMS platform, Ascend and Dentally are seeing good growth in two ways. One, as we launch new capabilities, we're seeing adoption of those capabilities and customers are moving from their current package to a higher package, which implies a more expensive package in order to get those new capabilities because they're seeing value from those.

So that's the share of wallet piece of growth that we're seeing from that business. But within also, we're seeing the conversion from on-prem to cloud-based and our cloud-based products are growing. We're adding around 200 new installations per month, which is quite fast growth, and we're excited about that growth. The overall business is growing in the 8% range now. It's been this year.

We think it can grow 8% to 12%. So we think there's real upside in this technology business. And it's a great indication of how technology is changing the dentistry. And so the exciting part is that we're not only creating new capabilities, leveraging AI, but we're also implementing

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AI capabilities that others are creating because people want to be on our cloud-based platform, and it continues to make it easier for our customers to do business. So that's the exciting part that we're helping to drive productivity in the practices.

Mike Sarcone - *Jefferies - Analyst*

All right -- and you mentioned 8% to 12%. Is there anything specific in the near term that drives that acceleration from where you are kind of right now? Or that's just --

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

No, I think it's the thing that I just described. It's the new placements and share of wallet gains and continuing to add new capabilities that encourage customers to be excited to implement the new system.

Mike Sarcone - *Jefferies - Analyst*

Okay. And then I did want to ask, you mentioned the value creation initiatives. You've got the strategic partnership with KKR. I guess, can you elaborate on some of the key components there and how you're thinking about the operating income targets and milestones we should be looking out for?

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

Yes. From a value creation standpoint, we're really -- we're on track to deliver $125 million run rate of impact relative to the 2025 base by the end of this year, end of 2026 and $200 million impact, get to that run rate at some point in 2028. There's really a few components of it. It's starting on the improvement in our gross margin. And as I've already mentioned earlier, our pricing capabilities that we've added.

And I think it's a really important point to note is while we've committed to these numbers, it's not a one-and-done kind of thing. We add new capabilities. We'll continue to see the benefit from having better capabilities around pricing over time. The other area is to accelerate the growth of our own brands, and we're seeing that today through different tactics that we're using and adding focus there, and we're seeing our own brands grow almost twice as fast as our third-party brands.

So that's exciting. And then on the cost side -- we've created a centralized indirect sourcing team to focus on leveraging our scale of our purchases, and that's going well. And then we've announced that we are outsourcing some of our back-office functions, starting with some areas of finance and customer service. And that really just started in Q3. Of course, there's some overlapping costs as you bring on new people and that we're seeing.

So we expect to see more savings from that in 2027 versus in 2026, but we're in process there in execution mode. And over time, we will add other functions to that. So we expect that to continue driving benefits in 2027.

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

And if I can add on the pricing, I think we are really in the early phase of the pricing, even though we are generating benefits. There's -- and we've made some progress to structure that action. There's still a lot of benefits that are to come. And really, the focus is really to make sure that we capture the value that we deliver and customers do recognize that value for sure, and we need to -- we need to make sure that it flows through the P&L as well.

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Mike Sarcone - *Jefferies - Analyst*

Got it. That makes sense. I guess is there any way to quantify -- you have a target of hitting a run rate of $125 million of operating income by year-end. Maybe how much you've achieved year-to-date through the third-quarter? Any way to quantify that?

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

So we haven't quantified that. And I think the reason is because we don't want to -- for the value creation to be seen as accessory or incremental to what we're doing. It's part of what we're doing. It's very much a productivity program. And so it is embedded in the way we do things, and it is also expected to generate recurring benefits.

And so we're not going to quantify. I think the best proof of that it's working is the fact that we are creating value. We are delivering double-digit EPS growth. It's been the third-quarter in a row year-over-year. And we intend to continue to do that, as I said, in 2027.

Mike Sarcone - *Jefferies - Analyst*

Got it. And then, Fred, you mentioned some of your targeted limited investments have been bearing fruit, particularly on the US merchandise side. You're going to make some incremental investments in 4Q. I guess, can you elaborate on the types of investments you're making and how long that may take to bear fruit? And then in the broader context, can you talk about the decision framework you use to balance that investment spend versus the double-digit EPS growth target?

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

Yes. We're certainly committed to double-digit EPS growth, and we see these investments as being an enabler toward continuing to be able to do that. The fact that we're taking share in the dental business is it really started with some of the investments that we made and the promotions that we did back in Q2 of 2025. We learned a lot from that.

And in particular, we learned how to encourage what I would call episodic customers, customers who maybe were shopping their business around to become active customers. And what we are using the promotions and the investments in Q4 to do is to really engage our customers more closely. And what we found is as we get closer with our customers, they tend to continue to buy from us. And so we're excited to be able to do that.

I would say I would just characterize the investments as limited and very targeted. And as we see benefit, we can push a little harder in areas that maybe where we're not seeing benefit, we can redeploy that to others. But we expect to see the upside in 2027, just like from the investments we made in Q2, we started to see that benefit later in the year and into this year. So we're excited about continuing to engage customers and continue to take share in dental.

Mike Sarcone - *Jefferies - Analyst*

All right. Great. We have about a minute left. So maybe we can just close it out on any updates on -- or just give us kind of how you think about capital deployment priorities in the near to midterm?

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

Yes. I didn't know if you would ask me. Yes, thanks for the time today. And no, we're excited about driving more value for our shareholders. And from a capital deployment standpoint, as we looked at how we can do that this year, we've tended to be a little more aggressive from

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a share repurchase standpoint. However, I would tell you, I think M&A is still a part of -- especially bolt-on M&A is still an opportunity for this business.

And so we'll keep our eyes open and we'll be a little more disciplined probably than prior management on what we might acquire, but it will be focused on helping us continue to build out this platform that enables our customers to run their businesses better. So that's what -- those are the type of opportunities we'd be looking for. And those things would obviously be focused on driving more organic growth and driving great returns to our shareholders.

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

Yes. And I think that what's the key tenet of the capital deployment is incremental cash generation. And I think that as we drive this business to generate more cash, we won't have to necessarily make arduous choices between the different aspects of the capital deployment, and we'll be able to do everything that Fred said and in addition to this, reduce debt.

Mike Sarcone - *Jefferies - Analyst*

Okay. Great. Well, that's all the time we have. So thank you very much, Fred, Emmanuel and Graham, and for the audience, thank you for your time.

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

Thank you, Mike.

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