

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

HSIC.OQ - Q3 2025 Henry Schein Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 04, 2025 / 1:00PM GMT

OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

Jason Bednar, CFA *Piper Jaffray Inc - Analyst*

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

Elizabeth Anderson *Evercore Inc - Analyst*

John Stansel *JPMorgan Chase & Co - Analyst*

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

Jeffrey Johnson *Robert W. Baird & Co Inc - Senior Research Analyst*

Michael Cherny *Leerink Partners LLC - Equity Analyst*

Kevin Caliendo *UBS AG - Analyst*

Brandon Vazquez *William Blair Capital Partners - Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Henry Schein's third-quarter 2025 earnings conference call. (Operator Instructions)

As a reminder, this call is being recorded. I would now like to introduce your host for today's call, Graham Stanley, Henry Schein's Vice President of Investor Relations and Strategic Financial Project Officer. Please go ahead, Graham.

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

Thank you, operator, and thanks to each of you for joining us today to discuss Henry Schein's financial results for the 2025 third quarter. With me on today's call is Stanley Bergman, Chairman of the Board and Chief Executive Officer of Henry Schein; and Ron South, Senior Vice President and Chief Financial Officer.

Before we begin, I'd like to state that certain comments made during this call will include information that's forward-looking. Risks and uncertainties involved in the company's business may affect the matters referred to in forward-looking statements, and the company's performance may materially differ from those expressed in or indicated by such statements. These forward-looking statements are qualified in their entirety by the cautionary statements contained in Henry Schein's filings with the Securities and Exchange Commission and included in the risk factors section of those filings.

In addition, all comments about the markets we serve, including end market growth rates and market share, are based on the company's internal analysis and estimates. Today's remarks will include both GAAP and non-GAAP financial results. We believe the non-GAAP financial measures provide investors with useful supplemental information about the financial performance of our business, enable the comparison of financial results between periods where certain items may vary independently of business performance, and allow for greater transparency with respect to key metrics used by management in operating the business.

These non-GAAP financial measures are presented solely for informational and comparative purposes and should not be regarded as a replacement for corresponding GAAP measures. Reconciliations between GAAP and non-GAAP measures are included in Exhibit B of today's press release and

can be found in the financials and filings section of our investor relations website under the supplemental information heading and in our quarterly earnings presentation also posted on our website.

The content of this conference call contains time-sensitive information that is accurate only as of the date of the live broadcast, November 4, 2025. Henry Schein takes no obligation to revise or update any forward-looking statements to reflect events or circumstances after the date of this call.

Lastly, during today's Q&A session, please limit yourself to a single question so that we can accommodate questions from as many of you as possible. And with that, I'd like to turn the call over to Stanley Bergman.

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

Good morning, everyone. Thank you, Graham. Thank you for joining us. We are pleased with our financial results for the third quarter, with sales growth accelerating in each of our reportable segments, including solid market share gains in our distribution businesses, as we are once again focused on driving growth now that the cyber incident is fully behind us.

The strong sales performance was a key driver of the underlying improvement in our operating income. Our successful execution of the BOLD+1 strategy, including the financial performance of our investments in high-growth, high-margin businesses, also sets the foundation for strong future growth.

With the continued input from KKR, we've made good progress on advancing the value creation initiatives we announced last year -- last quarter actually. Based on our first phase of work, we believe we have the opportunity to deliver over \$200 million in improvements to operating income over the next few years.

We have begun executing on these multi-year projects with key areas of focus that include centralization of support services, indirect procurement, automating and simplifying processes, and accelerating sales of corporate brand products. These initiatives support a return to our long-term goal of high single-digit, low double-digit earnings growth.

In addition, our Board has approved an amendment to the Strategic Partnership Agreement, giving KKR the right to increase its HSIC stock ownership up to 19.9% through purchases in the open market. Next, let me touch on a few key highlights from the quarter that advanced our BOLD+1 strategy.

We remain on track to achieve our goal of over 50% of non-GAAP operating income coming from high-growth, high-margin businesses by the end of 2027, which is the current strategic planning cycle. And in addition, we expect more than 10% coming from our corporate brands, so that's in total about 60% of our non-GAAP operating income coming from these high-growth, high-margin businesses and corporate brands.

While we have continued to strategically invest in our business, we have focused recent capital deployment on accelerating the repurchase of the company's shares. Our Board recently approved a \$750 million increase in this program, and our current expectation is to continue to execute buybacks at a similar pace to the past quarter. Building on the momentum from our successful launch of our new henryschein.com global e-commerce platform in the UK and Ireland, we are rolling out a phased launch in North America. We expect to start the European rollout in 2026.

Turning now to review of our business units, I'll start with the Global Distribution and Value-Added Services Group. Here we delivered solid sales growth in the third quarter across our global distribution group in both merchandise and equipment sales. In general, patient traffic remains steady throughout the quarter.

Notably, sales growth accelerated in the US merchandise area, which reflects strong corporate brand sales growth, as well as the positive impact of targeted promotional programs we initiated during the second quarter, resulting in continued increase in our market share in the United States.

If we turn now to the US dental equipment sales, which increased in the low single digits, with digital equipment delivering double-digit growth. We continue to experience a lower average selling price in digital equipment, but this is offset by strong volume growth.

Traditional equipment sales declined slightly. However, it's important to note, we believe this is a result of the timing of installations. We introduced a new online financing program, which we believe contributes to the good growth in the US equipment arena. Our order intake at DS World was good this year, and we expect this to help our equipment results in the fourth quarter. We expect to maintain overall US equipment growth in the fourth quarter.

Turning to the US medical business, sales grew in the mid-single digits for the quarter. The growth reflects strong demand for medical products and for pharmaceuticals, and particularly in the dialysis business along with continued strong performance in home solutions. This was partially offset by lower demand for respiratory diagnostic products and a decline in influenza vaccine sales.

Our international dental merchandise sales were stable, increasing in the low single digit in constant currencies. Looking at the international equipment sales, we have strong growth. Value-added services sales grew modestly, with sales growth driven by consulting services, which includes our eAssist Revenue Cycle Management business.

Now let's turn to the Global Specialty Products Group. As a reminder, this group includes implants and biomaterials, as well as endodontics, orthodontics, and orthopedic products. The third quarter sales reflected continued strength in implants and biomaterials as well as endodontics. We were particularly pleased with our implant performance, which built on last quarter's solid trends.

Sales growth was in the mid-single digits in constant currency, and we believe we continue to gain market share across most implant markets, in particular ones where we have our strength. So where we service the market, we have resources on the ground. We believe we're doing quite well in those implant markets.

Sales growth was led by our value segment. Both SIN and Biotech Dental implant systems performed exceptionally well, each posting double-digit gains. This was complimented by steady, low single-digit growth in our premium brand, BioHorizons and Camlog, demonstrating the strength of our broad portfolio of offerings.

In the US, implant and biomaterial sales grew in the low single-digits against a challenging prior year comparison. This growth, of course, reflects increased traction from our rollout of our BioHorizons Tapered Pro Conical implant and ongoing growth we achieved in SmartShape Healer Abutments.

We expect growth in these products to continue. The Tapered Pro Conical product now represents approximately one-third of our US implant sales, and it's important to understand that our customer feedback on this product offering is very, very positive.

International implant sales increased high single-digits, once again driven by strong double-digit growth across the DACH region and Latin America, reflecting strong patient demand and execution by our regional teams, which continues to be very good.

Our endodontics business delivered mid-single-digit growth for the quarter, benefiting from expanded sales reach through our US distribution team. Orthodontics, while still a small component of our specialty products, has stabilized, and we remain focused on improving the profitability of the orthodontics business. And finally, our orthopedic specialty business posted solid double-digit sales growth. So looking ahead, we are encouraged by the momentum across our specialty business.

And now on the Global Technology Group side, here we continue to accelerate our growth during the third quarter, driven by strong growth in the adoption of our core practice management solutions business, particularly our cloud-based platforms, including Dentrax Ascend and Dentrally, as well as strong growth in our revenue cycle management solutions, including eClaims, electronic billing, and patient messaging. As a result, we are seeing growth in annual recurring SaaS subscription revenues, as well as in transactional services.

Practice management software sales growth was again in the high mid double-digits this quarter, driven by 20% year-over-year increase in the number of cloud-based customers, primarily from new Henry Schein One accounts. The whole cloud-based strategy for us is doing very well. We now have over 10,500 Dentrax Ascend and Dentrally subscribers.

Revenue growth also benefited from recently launched revenue cycle management solutions that are now being adopted by practitioners as they seek to drive revenue and improve operating efficiencies. There are also some exciting new developments in AI in our Technology Group. Yesterday, we announced a partnership with Amazon Web Services to integrate its generative AI technology with Dentrix Ascend and Dentally.

Among the benefits are a real-time documentation system that uses AI to capture and summarize patient interaction, voice-activated charting, scheduling, and communication tools to further personalize the patient experience, and predictive business intelligence that automates claims validation and facilitates dynamic pricing tools. We believe this will be a significant addition to the Henry Schein One offering, and we expect these will help our customers drive incremental revenue and greater productivity in their practices.

Let me now comment on the announcement we made earlier this year that I'll be retiring as CEO at the end of the year, while continuing to serve as Chairman of the Board. As we discussed on our last conference call, the Board started a formal search process supported by a nationally recognized executive search firm, considering internal and external candidates, and remains on track to announce my successor by the end of the year. Of course, I remain committed to ensuring a smooth and seamless transition.

With that, now, let me turn over the call to Ron to review our third quarter financial results and discuss 2025 guidance. Ron, please.

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

Thank you, Stanley, and good morning, everyone. As usual, today I will review the financial highlights for the quarter and would like to remind investors that on our investor relations website we also have included a financial presentation containing additional detailed financial information, including certain reportable segment information.

Starting with our third quarter sales results, I will provide details on total sales, total sales growth, as well as constant currency sales growth compared with the prior year. Global sales were \$3.3 billion, with sales growth of 5.2% compared to the third quarter of 2024, reflecting constant currency sales growth of 4.0% and a 1.2% increase, resulting from foreign currency exchange. Acquisitions contributed 0.7% sales growth to the quarter.

Our GAAP operating margin for the third quarter of 2025 was 4.88%, a decrease of 6 basis points compared to the prior year GAAP operating margin. On a non-GAAP basis, the operating margin for the third quarter was 7.83%, an increase of 19 basis points compared with the prior year non-GAAP operating margin. Operating margin improvement was driven by lower operating expenses as a percentage of sales, partially offset by lower gross margin.

We continue to drive improved operational efficiency by integrating acquisitions, restructuring, and executing our new value creation programs. Gross margin was down 56 basis points year over year, primarily related to product mix in our Global Distribution Group and in our Global Specialty Products segment. Sequentially, gross margins versus the second quarter declined primarily due to the seasonality of flu vaccine sales in our medical business. Of note, gross margins stabilized in the US dental distribution business.

Turning to taxes, our effective tax rate for the third quarter of 2025 on a non-GAAP basis was 22.9%. The lower effective tax rate reflects the non-taxable nature of the remeasurement gain recognized in the quarter. This compares with an effective tax rate of 24.9% for the third quarter of 2024. We expect the effective tax rate to be in the 24% to 25% range in the fourth quarter, which is more in line with recent historical rates.

Third quarter of 2025 GAAP net income was \$101 million or \$0.84 per diluted share. This compares with prior year GAAP net income of \$99 million or \$0.78 per diluted share. Our third quarter 2025 non-GAAP net income was \$167 million or \$1.38 per diluted share. This compares with prior year non-GAAP net income of \$155 million or \$1.22 per diluted share. Foreign currency exchange favorably impacted our third quarter diluted EPS by approximately \$0.01 versus the prior year.

Our third quarter results include a remeasurement gain resulting from the purchase of a controlling interest of a previously held non-controlling equity investment. That business has performed well since we made our initial investment, and as a result, we recognized a pre-tax remeasurement gain of \$28 million this quarter. This compares to a pre-tax remeasurement gain of \$19 million in the third quarter of 2024.

The remeasurement gain in the third quarter of 2025 and its related tax treatment contributed approximately \$0.23 to EPS, which is approximately \$0.08 more than the remeasurement gain recognized in the third quarter of 2024. Adjusted EBITDA for the third quarter of 2025 was \$295 million compared with third quarter of 2024 adjusted EBITDA of \$268 million, representing growth of 10%.

Turning to our sales results, the components of sales growth for the third quarter are included in Exhibit A in this morning's earnings release, so I will provide the primary highlights of the main sales drivers for each reporting segment, starting with our Global Distribution and Value-Added Services Group, whose sales grew by 4.8%.

Within this segment, US dental merchandise sales grew 3.3%, and US dental equipment sales grew 1.2%, with strong growth in digital equipment. We ended the quarter with a good equipment order backlog for fourth quarter sales.

US medical distribution sales grew 4.7%, despite lower demand for influenza vaccines and respiratory diagnostic products. Our Home Solutions business had another strong quarter, growing over 20% on an as-reported basis and 6% excluding acquisitions.

International dental merchandise sales grew 6.0%, or 2.5% in constant currency, driven by sales growth in Brazil, Canada, Italy, Spain, and Australia. International dental equipment sales were strong, with 10.1% total growth, with constant currency growth of 5.7%, driven by sales in Germany, the UK, Canada, and Australia. And finally, Global Value-Added Services sales grew 3.3%, driven by consulting services.

Turning to the Global Specialty Products Group, sales grew 5.9%, or 3.9% in constant currency. Our implant and biomaterial business experienced solid growth in the third quarter, including double-digit growth in value implants and low single-digit growth in premium implants. We achieved modest implant sales growth in a stable US market due to a high prior year comparable and high single-digit sales growth in Europe, including low double-digit growth in Germany.

We also had strong results in the Global Technology Group, with total sales growth of 9.7%, but 9.0% in constant currency. In the US, sales growth was driven by practice management software with double-digit growth in Dentrix Ascend, as well as solid growth in our revenue cycle management business. Internationally, sales growth was primarily driven by double-digit growth at our Dentally cloud-based practice management solutions products.

Turning to our restructuring program, from the restructuring program announced in August 2024, the company recorded restructuring expenses of \$34 million or \$0.20 per share during the third quarter of 2025. We expect to achieve annual run rate savings of more than \$100 million from that restructuring.

Additionally, from the value creation initiatives announced last quarter, we believe the opportunities should deliver over \$200 million of operating income improvement over the next few years. Therefore, we are extending our restructuring plan, and we will continue to record restructuring charges in 2026 and 2027. We expect these initiatives to support a return to our long-term goal of high single-digit, low double-digit earnings growth.

Regarding share repurchases, during the third quarter of 2025, the company repurchased approximately 3.3 million shares of common stock at an average price of \$68.62 per share for a total of \$229 million. At the end of the quarter, Henry Schein had \$980 million authorized and available for future share repurchases, which includes \$750 million that the Board of Directors authorized in September. As Stan mentioned, our expectation is to continue to execute buybacks at a similar pace to this past quarter.

Turning to our cash flow, we generated strong operating cash flow of \$174 million in the third quarter of 2025 and continued to expect operating cash flow to exceed net income for the full year. This compares with operating cash flow of \$151 million in the third quarter of 2024. Our accounts receivable increased slightly during the quarter in line with sales growth, as third quarter revenues were approximately \$100 million higher than the second quarter.

Let me conclude my remarks with the discussion of our updated financial guidance. At this time, we are still not able to provide, without unreasonable effort, an estimate of restructuring costs associated with the restructuring plan for 2025. Therefore, we are not providing GAAP guidance.

We are raising our 2025 financial guidance as follows: we now expect non-GAAP diluted EPS attributable to Henry Schein to be in the range of \$4.88 per share to \$4.96 per share, reflecting stable markets and good third quarter financial results, as well as the remeasurement gain realized in the third quarter.

2025 sales growth is now expected to be 3% to 4% over 2024. We expect a full-year non-GAAP effective tax rate of approximately 24% to 25%, and we are maintaining our 2025 adjusted EBITDA guidance, which is expected to grow in the mid-single-digits versus 2024 adjusted EBITDA of \$1.1 billion.

Our guidance also assumes that foreign currency exchange rates will remain generally consistent with current levels and that the effects of tariffs can be mitigated. Our 2025 guidance is for current continuing operations and acquisitions that have closed. With that, I'll turn the call back to Stan.

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

Thank you, Ron. I'd like to give you -- it is very unusual for our calls, a bit of a reflection on the past 30 years as a public company. Tomorrow, we'll be ringing the opening bell at the Nasdaq Stock Exchange to celebrate our 30th anniversary since our IPO. That's 120 quarterly calls. The growth on the journey from IPO in '95 to today has been quite significant, with sales growth over this period growing at over 11% compounded average growth rates.

From a market capitalization of \$280 million, the value of the company has grown at almost 12% compounded average growth rates, including the value of the animal health business we spun off in 2019. So this is a 12% compounded annual average growth rate over this 30 years as a public company.

Like all rapidly growing businesses, there have been some significant ups and downs along the way. When we merged Sullivan Dental and Meer Dental back in 1997, skeptics questioned whether we could integrate three distinct cultures and turn our business from a dental mail-order company to a dental full-service operation, including a field sales organization, equipment sales and service, while integrating these three cultures.

That year, we also acquired Dentrix Dental Systems, creating what some called a three-legged chair, selling products, services, and technology. Shortly thereafter, we had a dental anesthetic recall issue. When our stock price fell, we chose the difficult path of continuing the journey of creating the world's largest full-service dental distribution and dental practice management software businesses.

Within a short period of time, our customers saw the value of our one-stop shop of products and related services. Then came a bold expansion into Europe, which was accelerated in 2004 with the acquisition of Medentis, the recently spun-out distribution business of Sirona. This created a global platform which changed the level of discussion within the industry to a global one, new markets, new regulations, new cultures, new common values.

When the 2008 financial crisis struck, we were forced to make difficult decisions while staying true to our values, we tightened our belt but kept investing in our people and our future. Fast forward to 2020, COVID temporarily closed down the dental market. There were empty offices, disrupted supply chains, and uncertainty everywhere. But Team Schein adapted, and using our world-class supply chain network, played a key role with governments in supplying personal protective equipment, mainly masks, as well as COVID tests too, of course, to healthcare professionals and healthcare practices throughout the world.

When the world reopened, we bounced back. The business was growing well until October of '23, when the cyber event hit us. For a moment, it felt like everything we'd built was vulnerable to an invisible threat, but once again our team rallied, restored our systems, and began the recovery. Some customers took a while to return but appreciated our offering in the end.

This is now behind us, not forgotten, but overcome by the team which is once again focused on driving sales momentum. Each challenge made us sharper, more resilient, and more united, which brings us to today's BOLD+1 strategy, which accelerates us into product development, innovation, expanding our digital capabilities, deepening customer partnership, and our own brands. All of this enables us to provide our customers with solutions to operate a more efficient practice so that our customers can focus on providing better patient care.

Our recent results demonstrate the success of the strategy. In addition to the outstanding growth over the past 30 years, I'm particularly satisfied with the work of the company and all Team Schein members, who have undertaken this incredible journey to make an impact on the profession and the communities we serve around the world.

We've become a leader and a model with our work to create and strengthen public-private partnerships, whether it's in the profession or in the local markets that we serve or even on a global basis that have expanded access to care around the world. We have made a difference in enhancing global health preparedness and reinforced the vital link between oral and overall health, including, as I've said, access to care. This has been a big goal of ours and has driven our brand and driven our sales and related profits.

In closing, I have huge confidence in the management team who are talented, motivated, and working diligently to execute our strategies, including our value creation programs which will provide further clarity today, and I'm quite -- very optimistic about where this will go and how this will drive up operating income and therefore shareholder value.

So, before we take questions, let me thank all 25,000 Team Schein members around the world, our incredible Board, our suppliers, those investors that have confidence in us. I believe you'll be well rewarded in the years to come. Thank you for supporting us for the past 30 years. I personally wish to thank those on this call that I've known for so many years, many analysts for decades, many investors since the beginning.

It's been a true wonderful journey. It's been wonderful getting to know all those constituents that are active in supporting the office-based dental and medical practitioners. So with that in mind, let me turn over the call now to the operator to answer some questions.

Thank you very much. And sorry for the added lengthy words here, but I just -- 120 calls later, I think I should be able to make a couple of extra words. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jason Bednar, Piper Sandler.

Jason Bednar, CFA - Piper Jaffray Inc - Analyst

Good morning, everyone. Nice quarter. And Stan, it's been a pleasure working with you. Congrats on everything. I'll try to stick with the single question request, but I may bend the rules here with a multi-part question.

I wanted to focus on the comments you're making about future earnings growth. The third quarter performance might suggest you're back to posting better top-line growth. It also seems like you're picking up some benefits from the restructuring program that's been ongoing. And then you have the first phase of value creation targeting \$200 million in EBIT benefit.

When you say that you're returning to your long-term goal of high single to low double-digit EPS growth, I guess my question is whether that's a comment that's applicable to 2026. And that \$200 million benefit is pretty large. I think it's larger than a lot of us were expecting today. Shouldn't that program alone get you in that EPS CAGR range before we even think about core revenue growth and capital allocation opportunities?

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

So Jason, thank you, and I think you're one of the two analysts that had the longest experience in our space and really know it. So thank you for sticking with Dental. I think Dental will present good rates of return to investors over time. So I think it's a good place to focus from an analyst's point of view.

But I'll just -- I'll deal with the sales momentum. I think we're very comfortable now that the cyber incident is behind us. Our salespeople are out aggressively going after business. It's not a matter anymore of explaining what happened in terms of cyber incident. I think it's quite clear now that many in healthcare unfortunately have been through this. It's kind of almost normalized.

And I think a lot of our customers have tried alternative options to save a penny here or there, but realized that the service we provide from a supply chain and all the value-added services makes it really worthwhile. So I would say the organization -- we've got great management throughout, in particular as it relates to sales.

Sales management, the marketing management is great throughout the world, and so the momentum is very good. We're attracting excellent representatives to join our sales representatives. So the momentum is there, and I think that's indicative of the fact that we upped our sales guidance. Now Ron, as it relates to the financials, your thoughts?

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

Yeah, certainly, Jason, with reference to 2026, as you can appreciate, this is a kind of a multi-year plan to deliver the \$200 million in operating income improvements. Having said that, we do expect some operating improvements in 2026. So, as we assess the plan and as we kind of work through the sequence that will be necessary to deliver that \$200 million, we'll be able to determine the estimated impact and the estimated benefit that'll be in 2026, and we'll reflect that in our 2026 guidance when we provide that in February.

Jason Bednar, CFA - *Piper Jaffray Inc - Analyst*

Okay, very helpful. Congrats again and I'll step back for others to ask questions.

Operator

Jon Block, Stifel.

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

Thanks, guys. Good morning, and Stanley, certainly echo everyone else's congratulations. A quick one for me. Ron, the midpoint of 2025 EPS guidance came up by \$0.05, if I've got that correct. The remeasurement was \$0.08 above last year. So maybe if you can talk about what was embedded in the original guidance and clarify that.

And then just taking a step back, and maybe this one's for you, Stanley. The third quarter was certainly better relative to Q2. You mentioned some share gains, but I'm just curious how much of that was market improving versus Henry Schein execution, and maybe any early comments on October. Thanks, guys.

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

Okay, I'll start with the guide and then Stanley, you can do the back half. On the guide, Jon, with the remeasurement gain, there's a range of outcomes that we have to estimate there because until you actually complete the transaction, it's difficult to assess exactly how much will be there.

So it was slightly higher perhaps than what we would have expected but was within the range of our expectations. So the \$0.05 has a little bit of a benefit from that remeasurement gain, but it also reflects, I think, the momentum we feel like we have in sales growth.

I mean, if you look at year-over-year for us and strip out the remeasurement gain, strip out the \$28 million in the third quarter on a pre-tax basis this year, strip out the \$19 million on a pre-tax basis last year, and take a look at our non-GAAP operating income, we did achieve about 4.5%

operating income growth. And that's -- we think, that's pointing us in the right direction. And so we're confident with the momentum we're seeing coming out of the third quarter going into the fourth quarter, and that's reflected in the revised guide for this year. Stanley, do you want to?

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

Yeah, thank you. Jon, thank you also for following us in the dental industry for so long. The markets are, I would say, generally stable. Of course, there are some markets that will be better, some that are not, but generally the big markets are stable. I think units are pretty constant in the markets.

It's most encouraging that this time now we don't see pricing going down too much. It's pretty stable, I would say. I don't think customers are moving significantly to lower prices. National brands, there was a movement in that area. Having said that, our own brands have increased -- continued to increase now for the last few quarters. I think it's good momentum there.

There is a little bit of tariff inflation, maybe 100 or so basis points in the United States, but not a lot. We've been able to talk to some manufacturers about absorbing the tariffs. Others, for some products, we've switched to US manufacturing. Perhaps a few items, more than a few, to markets with tariffs a little bit less.

So generally, the market is stable with a tad of inflation, 100% or so. Glove pricing has stabilized. Units are a little bit up now for us. We are gaining that market share there. But generally, I would say from a Henry Schein point of view, we believe we're gaining market share. And I'm talking about distribution now. And where it becomes a bit clearer is on the implants and related bone regeneration there.

We believe we definitely are growing faster than the market. Maybe there's one manufacturer doing a bit better than us in certain markets that we are not focused on, but generally I would say we are doing quite well in the implant field, where the market is relatively stable. And endodontics, relatively stable, we're gaining market share.

On the medical side, generally, pharmaceutical side of Henry Schein has done well. I think it's stable. I don't think there's much in the generics to report this quarter. For medical equipment, med-surg products, relatively stable. There has been a decrease in testing and respiratory products. It's just not been -- people are not being very sick this season. But overall, I think the 4% to 5% we're growing in medical in the US is indicative of the market with not a significant amount of inflation. And I think we are picking up market share there. And of course, on the software side, it's quite clear we're doing extremely well. And that's driven by our cloud-based system.

Systems growth, our various value-added products that we've added to our electronic medical record system. And overall, I would say, we're doing generally quite well. We listed countries where we're doing a little bit better, and obviously those are countries where it's largely market share growth because the markets throughout the world are relatively stable. Thanks, guys.

Operator

Elizabeth Anderson, Evercore ISI.

Elizabeth Anderson - *Evercore Inc - Analyst*

Hey, guys. Good morning, and Stanley, congrats. I'm very excited for you, and you've achieved so much in this company over the years, so I appreciate all of your work there. Maybe just going -- you talked about, I think during the call, some of the stabilization in the gross margin in the distribution business. Ron, I was wondering if you could expand on that a bit and sort of talk through the puts and takes of that and sort of how you see that developing maybe in the fourth quarter and as we think about going forward. Thank you.

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

Certainly. So yes, on the US specifically, I was making reference to the US dental side. We did see stabilization in the margins there as glove pricing stabilized, so that definitely helped, and we returned to a more normal level of promotional activity in the quarter.

So the Q3 gross margins in US dental are consistent with what we saw in the second quarter, and I would expect that to continue into the fourth quarter as well. It's largely driven by continued stabilization in PPE, specifically gloves, because that is a very important product category.

Within medical, we did have a little bit of product mix there, as influenza vaccine sales tend to be very strong in the third quarter relative to the rest of the year, even though they were down year-over-year, and that is a lower margin product.

Also, medical saw very good sales growth in their pharmaceutical products in the quarter, and those tend to be a little lower margin than the overall margin in medical, but very pleased with the sales growth we got in medical and believe we can continue to see that continue into the fourth quarter.

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

So firstly, thank you, Elizabeth, for your comment. But Ron, if you could answer -- I forgot to answer Jon's question on October.

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

Yeah, certainly. And with reference to October, we continue to see, I think, the similar trends to what we saw in the third quarter. As we worked through October and looked at the results, we've seen a -- there may have been some forward buying a little bit as people were trying to get out in front of tariffs, but we didn't really see that impact October negatively for us.

Medical will be -- often is driven by the timing of the respiratory season. So we're anticipating some improvement in our diagnostic kit sales in the fourth quarter depending on the timing of the respiratory season as well.

And on the equipment side, while we had very good, in the third quarter, digital equipment revenues, our traditional equipment revenues were relatively flat and down a little bit in the US, mostly just due to the timing of some installations. We're very comfortable with the equipment backlog we saw. We're beginning to see some of that benefit in October and kind of running into the fourth quarter as well.

Operator

John Stansel, JP Morgan.

John Stansel - *JPMorgan Chase & Co - Analyst*

Great, thanks for taking my question and congratulations, Stanley, on all your accomplishments as CEO across the career. Just want to quickly talk about specialty products operating profit. I appreciate it was up significantly year-over-year, but with the \$28 million remeasurement gain, it looks like it would be flat -- call it flat to down, stripping that out.

And I think you've highlighted some solid top-line trends that you're seeing across implants. Can you just talk about what you're seeing on the margin side of the Specialty Products Group and what might be driving that? Thanks.

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

Certainly, John. I think a couple of things in the year-over-year on the specialty side. Yeah, you're right, you do have to look at it kind of excluding the \$28 million remeasurement gain. Last year, we did have a relatively strong quarter on the US implant business that did develop a little bit of a strong or difficult comparable for them. But also what we are seeing in the market is -- and we mentioned this in the prepared remarks that the value implant growth was in the low double-digits, while premium implants were really kind of growing in the low single-digits. And we do get better margins on those premium implants versus the value implants.

So while it's great to see the growth in value, it does dilute that margin a little bit, and I think the combination of the comp to the prior year and a little bit of a dilution in that gross margin is creating the dynamic that you're referring to there.

Operator

Allen Lutz, Bank of America.

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

Good morning and thanks for taking the questions. Stan, congrats again on the retirement. Appreciate all the time and insights over the years. A question for Ron just to follow up on that last question around the specialty growth trajectory. As we think about the lower gross profit dollar contribution from value implants relative to premium, can you talk about what you need to see in the model for EBIT dollars within that specialty business to go up in 2026? Not looking for guidance on 2026, but how does the model have to behave in order for that part of the business to grow next year? Thanks.

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

Well, I mean, I think, Allen, the obvious answer would be greater growth in the premium implants. But I do think that continued growth in value implants can give us gross profit dollar growth ultimately. And then recovery -- a slight recovery in the market for premium would also benefit that.

Endodontic sales, which is also within that specialty area, continue to be steady and should continue to provide some gross profit dollar growth. And I would say that within the orthodontics, we have made some significant operating changes there, and I would expect that to begin being more of a contributor to some growth in 2026 as well. Albeit, it's still a small part of that segment, but I think it can provide some greater contribution to gross profit growth.

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

And one other thing -- thanks. There's a lot of work going on in that group on value creation: consolidating front office procedures, consolidating facilities, consolidating manufacturing. That has all been planned over the last couple of years been executed, and I think we'll see some good results in 2026. In particular, also Ron mentioned the orthodontics. I don't think we can invest heavily in marketing of orthodontics. It just doesn't give us the traction that I think we can get by using those dollars and investing in other parts of the specialty area.

So we have some orthodontic products. They sell nicely through the Henry Schein sales force, but we're reducing our focus on the orthodontic field sales force. And generally, these various consolidation concepts I mentioned, this should all drive up operating income on the Specialty Products side.

Operator

Jeff Johnson, Baird.

Jeffrey Johnson - Robert W. Baird & Co Inc - Senior Research Analyst

Yeah, thank you. Good morning, everyone. Stanley, thank you for the walk down memory lane there in your prepared remarks. It's been a heck of a run and obviously we all wish you nothing but the best. Ron -- or Stanley, hoping I could maybe ask kind of a phasing question. I know you're not really talking about 2026 at this point, but in that \$200 million now in op income, cost savings, are you expecting that to be, one, a net number then inclusive of any kind of reinvestments back into the business, number one?

And number two, should we split that over the next three years, kind of \$70 million, \$70 million, \$70 million, something in that ballpark? And on top of that phasing question, maybe just the remeasurement gain that \$28 million, can we expect something similar next year, or should we not have something like that in our model next year just as we think about the negative -- the year-over-year comparable there? Thank you.

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

Hi Jeff. Yeah, thanks for the question. I think that -- I'll start with the \$200 million. And as we said, this is a multi-year plan. We're not in a position yet to kind of commit to what we expect the phasing of that to be. As you've inferred, it will be phased over a period of time, and we are currently assessing what we believe the 2026 benefits may be from these value creation initiatives as we get started on them, as many of them are actually kind of in process now, those initiatives, right?

So, we'll be able to have a more accurate assessment of what we think the 2026 benefit will be and will reflect that within our 2026 guidance. With reference to a remeasurement gain, what I can say is that they've been a regular part of our business and they've popped up in the last few years in our results. There's always further opportunities to invest in these types of affiliates, but we're not expecting anything significant in the near future.

So to the extent that in 2026, if we believe there's not going to be something significant, we will make sure that that is clear when we provide that guidance. If we believe that there is something out there, we will try to provide some color as to what magnitude that could be. But I would expect it to be an integral part of our guidance when we provide that.

And then with reference to the \$200 million, is it net? I mean, as we've said in the press release, this is \$200 million of operating income improvement, so yes, it is net. There will be some additional investment that will be necessary that we think we can do with the cash we generate from these value creation initiatives. So there will be some areas that we have to invest in that might create some costs, but over time we think that this is a \$200 million net opportunity for us to the operating income improvement.

Operator

Michael Cherny, Leerink Partners.

Michael Cherny - Leerink Partners LLC - Equity Analyst

Good morning. Thanks for taking the question. And yes, Stan, not a ton more to add there, but I appreciate all the time over the years. Maybe if I could just think about the market a little bit again. You talk about the share gains. Obviously, your biggest competitor has had a change in structure, a change in management. As you think about the pathway of getting back to your normalized growth rate, what are the assumptions for share gains on the merchandise and on the equipment side going forward?

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

So I don't know if we -- we haven't really given guidance on assumptions for 2026, so I think, I mean, unless Ron has something specific, I don't think that's...

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

No, I mean, the only thing I would add is we're confident we've been taking some share over a period of time, and we're confident that some of the promotional activity that we deployed earlier this year has assisted in some of the market share gains that we believe we had in the third quarter.

And so it's simply a matter of continuing with that type of activity in a thoughtful way, such that we can assume some level of market share gains. But at this point in time, if we think it's a relevant assumption when talking about our 2026 guidance, we can provide more color there.

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

Thanks, Ron. Having said that, we did give guidance on sales growth for this balance of the year. I think it's implicit in there that we feel strength in the business. Really, when you're in one of these cyber incidents, you don't realize -- systems were up and running, etc., but you don't realize what work has to get done to get the customers back in the door. Some of those customers tried alternate sources. Maybe they got a better deal. Maybe there was a program that was offered. Maybe Coke at the end of the aisle was at a lower price. I think a lot of that is behind us. Our sales organization is highly motivated right now, dental, medical in the United States and abroad. They got their systems back.

There's a lot of tools they've gotten that were promised and worked on before the cyber incident that are there. They can see that the henryschein.com system is working in a number of parts of the world. There's huge enthusiasm with that. And generally, we're getting some salespeople that are knocking on our door from our competitors -- not just one, but multiple competitors.

And generally -- and I'm talking about distribution now -- the distribution part of Henry Schein has gained momentum. It's back in its stride. We're winning. We're fighting. Equipment business is solid. Our consumable business is doing quite well, units, pricing. We've got a great offering.

And generally, the mood amongst our sales organization is great, both in the field. The telesales group, which was largely focused on customer services for at least 1.5 year is back aggressively selling our e-commerce services. Generally, that group is doing very well. The whole social media group is doing well.

And I might add, our relationship with our major suppliers is good. Our suppliers want to work with Henry Schein. And then if you add to that the leveraging relationships amongst our different businesses, I think you'll see the programs are working.

We have a great group that is just focused now on our own brand products, the specialty products that we're selling through distribution. That group is doing very well. The Dental part, the Clinicians Choice part, the bone regeneration part. There just is a lot of good momentum in the business. And it's sort of started getting better a couple of quarters ago.

We gave that push of promotion last quarter. That's now stuck. And generally, I think the momentum is good. And that's reflected in the increase in sales guidance that we've given. And I can't see why that kind of momentum wouldn't go into 2026, although I don't think we should be talking about specific numbers for 2026 on this call.

Operator

Kevin Caliendo, UBS.

Kevin Caliendo - UBS AG - Analyst

Thanks for taking my question. And Stan, it's been a pleasure to get to know you over these past 20-plus years. I really appreciate everything. My question is around the Heartland relationship. Where we stand with that, it was sort of a key debate a couple of months ago and drew some worry from investors.

I guess I just wanted to see if there's any update on that relationship, if it's going to continue at the same level. And I guess to that point, how successful has the company been with being able to push through the higher costs related to tariffs and things? If you can maybe give us an update on that. Thanks.

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

Thanks, Kevin. Thanks for that question. Thanks for your good wishes. I don't think we have ever spoken about specific DSO or even IDN relationships. I don't think that's something we should talk about. When we gain an account, when we lose an account, we never talk about that. Maybe we did 10 years ago, but we stopped doing that.

Our relationships with our DSOs are generally quite good. In fact, I think there are DSOs, specifically the regional ones, that are moving over to us. And we definitely have something that others don't have. The supply chain is superb. Supply chain solutions are, I believe and I'm sure many will tell you, the best in the industry, both in terms of dental and medical.

Value-added services, the combination of software, the DSOs that get the consumables from us, the software from us, those that also have moved to our implant business. In fact, we've just gained another decent movement from the DSO into the implant arena, all of this, you put this all together. And we offer a very good offering, and actually I think the most compelling offering.

So I don't think we will talk about any specific customer moving one way or the other. As analysts, of course, your job is to try to find out what's going on. But I don't think it's going to come to us, it can't. It's not right. So I'm sure you'll hear through the marketplace about any of these specific DSOs, but generally we feel very comfortable with our business.

I can't imagine any DSO saying to Henry Schein, we're not going to test your pricing. We want better pricing. It's the standard, what they do for a living and our job is to go into the marketplace to get the best pricing we can for our customers. That's our job.

As it relates to the tariffs, generally we've been able to find a way in which we can move product locally. We can negotiate with the manufacturer, find alternative countries. And there's been somewhat of an increase, I think a percent or so of inflation here. I would say a lot of that is to do with tariffs, not much to do with general pricing increases.

So generally it's sticking. And it's not that our customers think we're trying to take advantage of them. They know we're doing the best we can to get the best pricing options. I'm moving to private brand if the national brands are insisting on increasing pricing.

So I think overall, it's working okay at this point. I think there's been some reduction in tariffs in a couple of important countries. And I think -- I mean it's hard to tell where this is going to go, but I think generally we're doing okay on the tariff side at the moment.

Operator

Brandon Vazquez, William Blair.

Brandon Vazquez - *William Blair Capital Partners - Analyst*

Hey everyone, thanks for sneaking me in here, and Stan, I'll echo everyone's congrats on a great career at Henry Schein. I wanted to ask on the update around KKR and the board's approval for KKR to take an even bigger stake in the company. Just curious if you could talk a little bit about the impetus of that decision, what kind of conversations are happening there, and should we think about -- as KKR continues to take bigger and bigger slugs of the equity ownership here potentially, does the partnership become a little more, I don't know the right word for it, but maybe a little more intimate?

Are you guys working a little bit closer to the strategies on a go-forward basis for Henry Schein? See more meaningful changes as they become a bigger and bigger shareholder of this company? Thanks.

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

Thank you, Brandon. Thank you. You guys have followed us since the day we went public -- in fact, took us public, so thank you. As it relates to KKR, we didn't approach them. They came to us. I think they've gained an appreciation of the company. They studied the dental space for, I don't know, for a long time, arguably over a decade. They know a lot about the space, the consumables, the providers, the software, and value-added service providers.

I think they like our company, so they came to us and they asked to go up. Our Board had a discussion. Our Board showed that the Board was fully aware of all the factors involved in taking this number up to 19.9%, and they made a decision. I think the decision was based on substance, not on any particular promises or anything from Henry Schein to KKR. It was a pure decision they made on the value they see within the company and the future and the potential.

KKR's Capstone Group did work with us on selecting the two consulting firms we use. They've been involved in discussions with our management team. Andrea Albertini and Tom Popeck are running the value creation project.

KKR is aware of the project. They've given us some input on best practices. They've helped us also with some of the indirect spending. They have some good relationships with providers of services that have helped us.

So I'm saying it's a very good relationship. The two members on the Board are very active. One is an expert in healthcare. The other one understands the general market very well, expert on various kinds of supply chain methodology, etc. And they've been very helpful.

So I would say it's been a good relationship, and things have worked out quite well. That's why they asked to increase their position in Henry Schein. And our Board, as I said, discussed that and made the decision to approve their request to go up to 19.9%.

So let me just end by saying, I think you've heard through my voice, through my words, I think the company is in very good shape. We have a great team in place. The team is motivated. The team is winning. Management team in each of the areas of responsibility, the business units, the functions, good management all around. And I think the BOLD+1 plan with the addition of the value creation program, which centers around simplicity for a lot of businesses.

We've advanced in a lot of businesses, how do we make the business more simple, how do we take out costs, how do we manage our margins in the best way possible. This is all to supplement to the BOLD+1 initiative or refinement as we're calling it internally.

So I think we've got a good plan. We've got a good road map. We've got the team to execute on this. Obviously, there will be some ups and downs as they always are in any business. But I think this team is highly enthusiastic and really to continue to advance the business in accordance with the plans, BOLD+1 and this value creation program that we've added.

So with that in mind, I thank everyone for the support over 30 years. It's been a great experience. I've enjoyed getting to know the Wall Street analyst community, the investors. There have been a lot of great strategic investors over the years. There's been those that have invested short term and exited and come back.

These are all the components of Wall Street and I have enjoyed understanding how this works. I've learned a lot. The team has learned a lot, and I look forward to seeing people at conferences in the future, although not as Henry Schein CEO, but as a keen follower of what goes on in healthcare.

So thank you all for your interest and appreciate everything. Tomorrow, you can see us on -- I think, on the Nasdaq media for the opening of the stock exchange of the Nasdaq. And I appreciate everything. Thank you. Thank you.

Operator

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

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2025, Refinitiv. All Rights Reserved.