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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

Glen Santangelo *Jefferies Group LLC - Moderator*

PRESENTATION

Glen Santangelo - *Jefferies Group LLC - Moderator*

Good morning, everybody. We're excited for our next presentation; to host Henry Schein. For those of you who don't know me, I'm Glen Santangelo. I recently started covering the dental industry again after a brief hiatus, but I covered it for a couple of decades before that. So we're very excited to have Stanley Bergman, the CEO of the company and Graham Stanley to his right, who heads the Investor Relations function for the company.

So we're going to dive right into it because we are a couple of minutes late.

QUESTIONS AND ANSWERS

Glen Santangelo - *Jefferies Group LLC - Moderator*

So Stanley, why don't we get right to it. This has been an interesting year. Obviously, you had the cyber-attack roughly this time last year. And I kind of feel like you've been sort of -- the company has been digging out of that hole all year trying to win that market share back in a stable but tough market. So given that we're 2 weeks off of 3Q results.

Maybe that's sort of a good place to start on your overall assessment at a high level of the market, the cyber-attack last year, where you think you are in terms of recapturing that market share, does that bleed into fiscal '25, just an overall assessment, and then we'll sort of dive into more specific questions.

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

Sure, Glen. We just have a reg FD requirement, if you don't mind, Graham.

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

Yeah. So just because we're from the US, we have all this sort of like reg FD sort of disclosures to make. So just to be sure we begin, Glen, I'd just like to sort of be clear that we'd like to make a statement about forward-looking statements.

And that things that we may say today may include forward-looking statements and that the risks and uncertainties of the company's business, which are disclosed in our SEC filings, and it means that actual results may differ from those forward-looking statements. In addition, Henry Schein's regularly engages with its shareholders with the goal of enhancing shareholder value, and we analyze any shareholder proposals in that context. So over to you again, Stan.

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

So Glen, it's good to be here at your conference. I think we kind of started out more or less the same in the public sector in dentistry. So good to be here. You're asking a very relevant question. How is the Dental market and how is Henry Schein doing?

So the dental market in the United States is quite stable. Visits are constant. In fact, could be slightly up. The challenge is that from a sales point of view, there has been a movement since Covid towards lower-priced products, not discounting per se at the distribution level, but the specific products that come from the more well-known national brands went up significantly in price.

In '22 because of the shortage of labor, raw materials were up and have stayed up. But what has happened since is that second-tier brands are being more frequently sought after by customers. They can go to the internet, and they can learn about the product.

Historically, you would buy because of brand. Now you can do your own research and get information on a product. And you can see whether there's a lower-priced product that provides the same functionality available at a lower price. And this is a trend that has occurred post COVID in dentistry, but I suspect it's occurred in many other industries.

Within those category of products, there has been a movement towards, at Henry Schein, towards our own brand products. These are products that, under the Henry Schein brand or OEM for us, or in the specialty areas, products that we manufacture ourselves and sell under different brands. So we've had this movement from a profitability point of view, it's actually pretty good because the profit we make per unit generally is as good, if not better, than the branded national brand product.

But from a sales point of view, the selling price is down. So the inflationary impact on per unit pricing that one may have experienced in '19, '20 is no longer there. So the pure sales in units are good. The GP is good, but the -- and the profit operating income is good. Sales are not as good, comparable one year to the other. And what you'll see is that this is the case in North America, outside of North America with consumables and equipment.

Now on the cyber. Generally, with customers, where we're annualizing now, the cyber incident occurred in the middle of the fourth quarter of '23, what you'll see with the cyber is that generally with the larger customers and those customers where we have a relationship to the customer through salespeople, either field or tele sales, that business has stabilized and has largely come back, in fact, is growing. The area that we are having a challenge is with customers that would go to the internet to do their shopping.

Our website in the United States was down for a month and in parts of Europe as much as 2, 2.5 months. So what happens is ratings on Google are down. So when you're going to look for gloves, you're not at the top of the list unless we pay for it. So we paid for some of these products, of course, but many products, dental products, et cetera, we don't necessarily pay, and our ratings are down. And so, what we have with these incidental customers, the customers that come to us just to go shopping and see the price of the product.

That is still the gap, it's closing. Each quarter, it's closing a little bit more than the previous quarter, but it's not closing at the rate we expected when we gave guidance originally in early '24 and we adjusted our guidance after the second quarter. So if that's --

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Glen Santangelo - *Jefferies Group LLC - Moderator*

Well, Stanley, you've been the CEO of this company for about what, 29 years from when you took this public and think about the growth in the '90s, 2000s, 2010s. And now we characterize the market as stable, maybe a little better, maybe a little bit worse. Has there been some type of shift? Do you think the economy is playing an impact on individual sort of utilization habits. And what sort of changes?

And do you see anything from a macro perspective with RFK, I mean dental stocks got a bump. I don't know if we're going to take fluoride out of the water. I don't know what stance we are going to have on vaccines. Like, do you see the market evolving or changing relative to what we've seen in the past couple of years? Is there any incremental concerns or any incremental optimism based on what you see?

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

Right. Glen, so dental. It's pretty stable and it's been growing in certain countries. And in the US, I think the visits are growing. Having said that, there are public companies that focus on implants or aligners and there are dynamics within those markets, but do not apply those dynamics to every product.

So if you take implants, the -- because of the high interest rates, the top of the market, the most expensive 20,000, 30,000, 40,000 implant cases are just not taking place as much as they did. Now this is at the margin. It's not as if there's a disaster in implants.

Our implant business is doing just fine. But at the top end, because of the cost of money, the interest rates, that's come down. So you see some of that. Similar issues with aligners. We're not a big player in the aligner market. And there is a shift, as I mentioned earlier on, towards lower-priced comparable products, often a generic, that, from our point of view, is profitable. But when you look at the sales of certain companies, you see, well, there must be a problem in dentistry.

So basically, the business is okay. From an equipment point of view, please be careful. 2019 was a good year, money was a problem because of COVID. '21, as the year went by, there was a problem in getting product. Practices weren't ready to receive the product because the buildings -- the buildouts -- were not ready. They couldn't get the doorknobs, they couldn't get the windows, all that that stuff. So we -- and then we had this big bulge in '22, and we had quarters with double-digit growth in equipment, totally unrealistic. We made that clear.

If you look at -- if you take a line and you look at where the business was in '19 or where the dental industry was in '19, and you take out gloves and masks and the bulges and equipment, et cetera. It's a pretty nicely growing business. And if you have inflation, it can grow at above inflation. So, if inflation is 2%, it could grow at 3% or 4%. And if you have no inflation, which we don't have right now, and it's not -- we're not in a depression, we once used the wrong word, and everyone thought it was the end of the dental industry.

That is not the case. Prices are just not going up, but the business is growing. So it's not growing at the top end and equipment is not being financed as easily as it was, but the business is a stable, growing business with, I must add, good cash flow from our point of view, and from the practitioners or customers point of view.

Glen Santangelo - *Jefferies Group LLC - Moderator*

Anything you see with the change in the administration of RFK that gives you cause for concern or opportunity? Or should we not even go there.

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

I've no idea.

Glen Santangelo - *Jefferies Group LLC - Moderator*

Okay. Fine. Let's move on.

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

Fluoride in the water has been an issue that is not -- has been dealt with in the '60s. When I came in the dental industry, it was a long dealt with issue and it's -- anyway, it's not a federal government issue as far as I know. And if this Congress passes a ban on it, I think it's something done at the local level and local government; New York City controls the water, fluoride in the water. As much as I would love to see a massive increase in sales because we're all going to have bad teeth, or it could take 10 years to have an impact.

Glen Santangelo - *Jefferies Group LLC - Moderator*

Okay. Just moving to the different segments. So, let's start with the dental merchandise. You're coming off sort of four consecutive quarters of negative growth. And obviously, that's probably driven a lot by cyber. And can you sort of talk about, does that spell some relief in fiscal '25 on easier comparisons back to that original question? Are you gaining -- is there much more incremental share to gain back and, combined with the fact that we'll be benefiting from easier comparisons in '25, are we thinking about that correctly?

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

So you're asking a numbers question, I think I have to go to Graham because I'll give you too much information, that will be trouble. Graham.

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

So I mean, we haven't provided guidance for 2025. But clearly, I think we've clearly articulated over the course of this year that we feel that sequentially, we've been gaining market share, clawing our market share back following the cyber incident. And as that annualizes that should provide some tailwind for next year.

Glen Santangelo - *Jefferies Group LLC - Moderator*

Okay. All right. Well, maybe then let's move on to sort of equipment growth. I mean, clearly, we saw some type of recovery in 3Q. I mean sales were up almost 2%, maybe some incremental optimism. What sort of drove that? Is that a sustainable trend? Should -- if you could just provide a little bit more color around that?

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

Yeah. I mean we -- our equipment business has been pretty good this year. I think it's certainly been in line with our expectations. Last quarter, I think our equipment business in North America was sort of like flattish. It grew about 5% internationally. We think that as interest rates come down, that will provide some benefit to our equipment business. And then our portfolio in equipment is a little bit different to other companies out there. We're probably about two-thirds traditional equipment, which are the sort of the chairs, cabinets and lights, about a third digital.

Traditional equipment has really been the growth driver for us. Digital has been a little bit softer, mainly because of the cost of technology coming down. You can buy a scanner now at a much, much lower price than you could do sort of 4 or 5 years ago. And that impacts our sales growth within that one category, but it's a very, very small category within the overall portfolio.

And really one of the big drivers for us on equipment, we have a significant parts and service business. About 15% of our equipment sales are parts and service. And that's something that we've been investing in because we see it as a significant value add for our customers. It's also got a much better gross margin than equipment sales. So that's been growing high single digits really for a number of quarters now. So we're pleased with our equipment business.

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

Can I just add that specifically in the third quarter in the United States, the traditional business was doing quite well, to (chairs, mills, lights) But on the digital side, just as Graham said, about a third of the business, our big supplier of digital equipment had their convention and the big sales meeting in the fourth quarter of this year, not in the third. So the promotions will be -- will certainly be shipped in the fourth quarter.

Glen Santangelo - *Jefferies Group LLC - Moderator*

Can we talk about the DSO market. I mean, it's had such a meaningful impact on the dental landscape over the last 5 and sort of 10 years. Can you talk about where we are in that sort of process of the DSO influence? And how that may be sort of impacting utilization trends, pricing behavior, things of that nature. I mean, yeah, I mean, I guess at a high level, I mean, what sort of appetite are you seeing in those companies to continue to invest, get bigger? And does that -- is that a benefit to you? Or does that create an incremental stream given the consolidation of that customer base?

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

Well, the very large DSOs Glen are growing, but not as fast as the midsized regional DSOs, which do very, very well. We have a business that buys and sells practices, and we have a business LPS, large practice sales, which focuses on larger DSOs and the business is doing quite well. So there is investment going on in the large DSO world. Obviously, it's a business that's private equity owned. So interest rates do impact some of these DSOs, but there are green fields taking place, not as high as many as they were say when interest rates were half the price.

But there are sales going on in the large DSO world for us. It's a great business and I can’t tell the exact number because it's hard to get data. But we're well over three-quarters of the DSO business. I mean, 25 of the top 27 buy from us. More than, we're a primary supplier. And it's good business because we go to the DSOs with a bundled package by your -- ship your branded products, please buy your consumables, please get your implants from us in endodontics and the software. So those are all high-margin businesses, and we bundle them together.

Glen Santangelo - *Jefferies Group LLC - Moderator*

We've got 4 minutes left of the time. I got four more questions. So I want to just sort of rattle them off really quickly. Let's talk about the medical business. We're now nine quarters in a row of sort of negative growth. I think people are pretty familiar with the headwinds you're facing there, particularly on the PPE side. Sort of where are we at this point? And are we getting closer to a trough or an inflection in that business? Like what can you tell us at this point?

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

Correct. You pointed out correctly. You've got to take out the PPE and the COVID test to get to the base business. Then you got to peel the onion further. In the first quarter and the third quarter, traditionally, those have been high respiratory quarters, flu, a particularly light season in the first quarter and in the third quarter, and also vaccinations, which is a part of the business, a nice part of the business.

Low margin, vaccination rate was down this year. Maybe it will go up later in the next few months, but it's pretty far down, low margin. And then if you don't have flu, you tend not to sell the diagnostics, and that's a big business for us. It's at the margin, for sure. And then you have the cyber recovery from the smaller customers, but it's a good business and very profitable and the bottom line is growth.

Glen Santangelo - *Jefferies Group LLC - Moderator*

Okay. Maybe can you talk real quickly about the BOLD+1 sort of initiative? I mean you realized what $50 million in cost savings at this point, maybe a little bit more?

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

BOLD is – the “B” is our Building of the high growth, high margin business, “O” is the optimization, the “L” is the leveraging, which is very important, leveraging one customer base against another, specialty and distribution, and “D” is the work we're doing in digital. But on the restructuring, we are committed in this go around $75 million to $100 million run rate. And I think we're pretty much there.

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

Yeah. I think, Glen, in Q3, we announced that we'd achieved -- taken actions to achieve over $50 million so far. So we're making very, very good progress even after, what, 1.5 months to 2 months. So yeah, we're very, very pleased with what's going on with our restructuring plan at this stage.

Glen Santangelo - *Jefferies Group LLC - Moderator*

All right. Can we maybe shift gears and just sort of talk about capital allocation. It's always been a big part of the Henry Schein sort of growth algorithm doing those acquisitions, buying those joint venture pieces, expanding your geographic presence. I mean, is that still the right strategy at this point? Do you still see opportunity for that to be a contributor to the growth algorithm?

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

So we generate just under $1 billion of cash each year, Glen. Traditionally, about a third is gone into buying back a stock, a third into investments, acquisitions and the like, and then the third, just to pay down debt. And we did acquire -- we spent $1.3 billion on investments in the BOLD+1, primarily in specialty businesses which, by the way, are all doing okay. And we don't expect to invest anywhere near that level going forward. You never know, but that's not the plan. Lots of small businesses to add but all within the $250 million to $300 million range.

Glen Santangelo - *Jefferies Group LLC - Moderator*

I just want to address the issue that I'm sure is on people's minds. I saw the way the stock reacted yesterday, right? There was an activist fund that sort of got involved, pushing for some change in changes, maybe questioning, wanting to know what the succession plan is. I don't know if there's any sort of -- you certainly seem very spry me and very energetic.

So I'm not I don't think anyone is pushing you to the exit yet, but I'm kind of curious, I mean, have you thought about how deep the bench is, what a succession plan might look like? And are you constantly evaluating all the businesses within the Henry Schein portfolio.

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

So first of all, we're constantly evaluating. We spun out our vet business, great business, had some challenges unrelated to when we handed it over. But on succession, we have a robust succession program. Our Board is deeply involved. We have highly qualified people on our board. Take a look at them. People have stepped down, a former Secretary, the Head of the FDA, a former Head of HHS, a different kind of head, they were all on our board, and we've had great succession on our board. Each of our senior leaders has been part of a succession program. I think you know Steve Paladino resigned, we had a succession, not resigned but retired, the Head of our Chief Operating Officer retired, was replaced, all internally.

Each of our businesses is held by people that have either grown in the company, who joined us in the last 3, 4, 5 years and are relatively new people and the Board on CEO succession has been highly engaged as we set a plan. So succession is there. Of course, we're not going to announce today, who's going to be my successor. I don't think that's the right thing to do, but there is succession.

Glen Santangelo - *Jefferies Group LLC - Moderator*

Okay. Any last word for the audience. It seems like dental markets are stable, comps are getting easier, anything else you want to relay to the audience in the last 20 seconds.

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

It's a good business. We generate a lot of cash. We grow. We reinvent the business every few years. We were a pure-play distributor when you came into the business; over half of our profits today are coming from businesses that were not even around even 5, 6, 7 years ago.

High-growth, high-margin products, services, value-added services, brands we control and we still are the largest in the business and expect to continue to gain global market share and have a deep bench of succession. A lot of that's in place. I mean we've got a new CFO that's doing great. We've a new head of North America that's great. We've got a great international head of the business; implants, two great leaders there, also recent successions.

And all of our specialty businesses combined are under a great leader, a young fellow that comes out of the orthopedic business put us into the orthopedic business which is a good business. So I can't guarantee every single month, it will go like this, but I can't tell you, look at the track record it hasn't been bad.

Glen Santangelo - *Jefferies Group LLC - Moderator*

Okay. Stanley, Graham. Thank you, guys very much. We'll end it there.
