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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Henry Schein's First Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. (Operator Instructions) And 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. Thank you. Please go ahead, Graham.

Graham Stanley - *Henry Schein, Inc. - VP of IR & Strategic Finance Project Officer*

Thank you, operator, and my thanks to each of you for joining us to discuss Henry Schein's financial results for the first quarter of 2024. With me on today's call are 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 upon 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 our 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 also in our quarterly earnings presentation also posted on our Investor Relations website.

The content of this conference call contains time-sensitive information that is accurate only as of the date of the live broadcast, May 7, 2024. Henry Schein undertakes 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 and a follow-up.

And with that, I'd like to turn the call over to Stanley Bergman.

Stanley M. Bergman - *Henry Schein, Inc. - Executive Chairman & CEO*

Thank you, Graham. Good morning, everyone, and thank you for joining us. Our first quarter financial results reflect solid earnings, driven by gross profit -- gross margin expansion and strong recovery from last quarter's cyber incident. We estimate that the incident lowered merchandise sales growth by low to mid-single-digit percentages during the quarter.

On PPE products, sales continued to decrease primarily due to lower glove prices for the last year -- from the last year. We estimate a reduced impact on sales growth from PPE as the year progresses.

We're very pleased with the progress we're making on executing our BOLD+1 strategic plan, and we are pleased with the contribution of our recent acquisitions. These acquisitions contributed to the profitability we achieved in the first quarter.

We are affirming our expectations for 2024 non-GAAP diluted EPS and 2024 adjusted EBITDA growth and tightening our expectations for 2024 total sales growth.

Our projected sales growth reflects continued recovery from last year's cyber incident and a strong pipeline of new specialty products and software innovation.

So let me turn to the review of our business units and start with dental on the distribution side. In North America, patient traffic to dental offices in January and February was impacted by weather events and by seasonal viruses, including the flu, but improved beginning in March.

Overall, we see steady dental merchandise sales improvement throughout the quarter, reflecting this trend, which has continued into April.

In the U.S., our THRIVE Signature program is contributing to sales growth and membership continued to increase with about 2,000 new members added in the first quarter bringing the total number of THRIVE Signature members to approximately 5,000.

For a monthly subscription, this program provides a package of services to customers such as free shipping, discount on product and services and THRIVE reward points, which, of course, in the aggregate drive customer loyalty.

International merchandise also experienced steady sales improvement in most markets as the quarter progressed. Sales growth was negatively impacted by 2 less selling days (corrected by company after the call).

Global Dental equipment sales were consistent with the prior year and were favorably affected by a shift in sales in the United States from late 2023 into the first quarter. Equipment sales grew in North of America but decreased slightly internationally.

So now a few comments on our dental specialties, the global dental specialties business. We had a strong growth across oral surgical products, endodontics and orthodontics largely driven by acquisitions, and we believe we also gained market share organically in the Global Dental specialties market.

The North American implant sales were largely consistent with last year. And international sales under our leading BioHorizonsCamlog brand were very good, and this was especially good in Germany.

In the first quarter, international sales benefited from the introduction of isY 2.0, our value implant system in Germany, which is also designed for ease of use. We expect the launch of a new BioHorizons implant system in the U.S. in the second half of the year and early next year in Canada. This launch will be for a new bone-level implant with a deep conical connection and is based upon our proven Camlog technology. We expect this will expand our addressable market significantly in the United States, thus increasing implant sales growth in the second half of the year.

So along with the introduction of S.I.N. value implant, this launch will position the company well in all market segments in North America. We achieved good growth sales during the first quarter as we launched our Edge branded products through the Henry Schein U.S. distribution business.

Although orthodontic product sales are relatively small part of our specialty product sales, the launch of our Motion Probe Bracket System is performing well and specifically addressing the exploration last year's motion product preference.

We also launched the BioTech Smilers, Clear Aligner and clinical digital workflow software at the American Association of Orthodontics meeting last week, both of which have already been successfully launched in Europe through Biotech Dental.

Let me now turn to the technology and value-added services businesses where the largest component is Henry Schein One, our dental software business. The customer base for Dentrix Ascend and Dentally, our cloud-based solutions continue to grow and increased 36% in the first quarter over the prior year, and now we have approximately 8,000 installations of our cloud-based systems.

We achieved solid growth in our revenue cycle management e-claims business despite the impact of Change healthcare impact of their cyber incident. This was due to the Henry Schein One team's prompt responsiveness to establish an alternative approach to processing customer insurance claims.

Within 48 hours, we successfully were processing claims and backlog through an alternative clearing house. We are very pleased with the team's approach on dealing with the Change Healthcare cyber incident. And this helped us navigate a challenge for our customers, and I might add many new customers that now have turned to Henry Schein One for help during this challenging period for Change Healthcare.

Although we believe overall technology sales were impacted by the Change Healthcare cyber incident, we expect sales in the second quarter to return to more normalized growth levels.

Turning to the Medical business. There was a strong contribution from sales of point-of-care diagnostics, including flu and multi-assay, that's a flu COVID combination test and a shift in sales towards lower-priced generic pharmaceuticals in our medical business.

Our North American Rescue business, which provides first responder and military medical solutions as well as our Home Solutions businesses performed well during the quarter. We also completed our acquisition of TriMed in early April strengthening our medical group's deep and long-standing relationships with IDNs, ASCs and orthopedic specialist customers as we expand our offering into the orthopedic marketplace.

Finally, we are pleased to share that late last week, we hosted our fourth Annual THRIVELIVE event in Las Vegas and had record attendance this year of nearly 1,500 attendees with significant support from our suppliers. This is primarily an education event where our customers gain continuing education credits through seminars in the largest -- in the latest innovation and clinical dentistry, including digital equipment and software. This year featured the launch of some new innovations to help our customers attract new business, such as our new Dentrix Eligibility Pro module that automates the delivery of claims eligibility data directly into the practice management software system. We believe this is quite a unique software feature.

And I'm particularly pleased with the integration of Reserve with Google, a new product that we also launched at the THRIVELIVE event. This enables consumers who search on Google to make dental appointments directly from their Google business listing into our customers' practice management systems and schedulers. These advancements support our continued commitment to driving innovation in the industry with products and services that add value to our customers' dental practices, enabling our customers to operate in more efficient practice while actually providing better clinical care.

Let me now turn over the call to Ron to discuss our quarterly financial results in a bit more detail. Thank you very much.

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

Thank you, Stanley, and good morning, everyone. As we begin, I'd like to point out that I will be discussing our results as reported on a GAAP basis and also on a non-GAAP basis. The items excluded from our first quarter non-GAAP financial results for 2024 and 2023 are detailed in Exhibit B of today's press release.

A reconciliation of our GAAP to non-GAAP income statement is also available in our quarterly earnings presentation on our website, which includes the non-GAAP effects of adjustments on noncontrolling interest. Also, please note that for most international businesses, the first quarter had 2 fewer selling days than the first quarter of last year. With respect to sales, I will provide details of total sales related sales growth and LCI sales growth, which is internally generated sales in local currencies compared with the prior year and excludes acquisitions.

Turning to our first quarter results. Global sales were $3.2 billion, with sales growth of 3.7% and LCI sales decreased 1.8%. Please note that our sales growth for the quarter reflects the residual impact of the cyber incident, which we estimate reduced sales growth by approximately 300 to 400 basis points.

In addition, lower PPE sales, primarily due to lower glove pricing, reduced sales growth by 60 basis points. Our GAAP operating margin for the first quarter of 2024 was 4.72%, a 101-basis point decline compared with the prior year GAAP operating margin.

On a non-GAAP basis, operating margin for the first quarter was 7.11%, a 57-basis point decline compared with the prior year non-GAAP operating margin. Gross margin improved 32 basis points primarily due to the contribution of businesses acquired in 2023.

Operating expenses were higher as a percentage of sales, primarily due to lower sales at our distribution businesses.

First quarter 2024 GAAP net income was $93 million or $0.72 per diluted share. This compares with prior year GAAP net income of $121 million or $0.91 per diluted share. Our first quarter 2024 non-GAAP net income was $143 million or $1.10 per diluted share. This compares with prior year non-GAAP net income of $161 million or $1.21 per diluted share.

The residual impact of the cyber incident on our first quarter 2024 results was consistent with the expectations we set out in the guidance we provided on our earnings call in February. The foreign currency exchange impact on our first quarter diluted EPS was favorable by approximately $0.01 versus the prior year. Adjusted EBITDA for the first quarter of 2024 was $255 million, which is consistent with the first quarter 2023 adjusted EBITDA of $256 million.

Turning to our first quarter sales results. Global dental sales were $1.9 billion, with sales growth of 0.8% and LCI sales decreased by 2.9%. The Global Dental merchandise LCI sales decreased by 3.7% versus the prior year. Merchandise sales were impacted by lower purchases by episodic customers and by lower PPE sales.

Global Dental equipment LCI sales increased 0.2%. Our North American equipment LCI sales grew 2.9% and with some traditional equipment sales having shifted into the first quarter from last year.

International equipment sales decreased 3.8% with positive trends in Germany, driven by technical service. On a global basis, CAD/CAM equipment grew nicely with pricing on intraoral scanners having stabilized. Digital imaging sales decreased slightly. Dental specialty product sales were approximately $284 million with growth of 21.6% driven by acquisitions with low single-digit organic growth in implants and endodontics.

Global Technology and value-added services sales during the first quarter were $217 million with total sales growth of 13.8%. LCI sales growth of 3.2% included 2.3% LCI sales growth in North America and 8.9% LCI sales growth internationally.

In North America, sales growth was driven primarily by value-added services, while international growth was driven by our Dentally cloud-based solution.

During the first quarter, we exceeded our goal of generating 40% of total non-GAAP operating income from our high-growth, high-margin businesses, with that metric coming in at 40.9% for the quarter.

Global Medical sales during the first quarter were $1.0 billion, with sales growth of 7.3% and LCI sales decreased 0.7%. We have strong sales of point-of-care diagnostics but lower PPE sales as well as lower pharmaceutical sales due to conversion to lower-priced generics.

The cyber incident also impacted sales to episodic customers, which we are working to regain. Regarding stock repurchases, we repurchased approximately 1 million shares of common stock in the open market during the first quarter. Buying at an average price of $75.10 per share for a total of approximately $75 million. We had approximately $190 million authorized and available for future stock repurchases at the end of the quarter.

Turning to our balance sheet and cash flow. We continue to benefit from significant liquidity, providing our businesses with the flexibility and financial stability to execute on organic growth initiatives and strategic acquisitions, while continuing to return capital to our stockholders and reducing borrowings.

Operating cash flow for the first quarter was $197 million compared with $27 million last year, driven by a reduction in our receivable balances, which were elevated at the end of the year.

Restructuring expenses in the first quarter were $10 million or $0.06 per diluted share and were incurred as part of our previously disclosed restructuring initiative. These expenses mainly relate to severance benefits and costs relating to exiting certain facilities.

We reported other non-GAAP adjustments in the first quarter, which are detailed in Exhibit B to today's press release.

I'll conclude my remarks with our 2024 financial guidance. At this time, we are still unable to provide estimates for costs associated with integration and restructuring for 2024. Therefore, we are not providing GAAP guidance. We are affirming our guidance for non-GAAP diluted EPS and adjusted EBITDA growth. In addition, we are updating our guidance for total sales growth. For 2024, we expect non-GAAP diluted EPS attributable to Henry Schein, Inc. to be in the range of $5 to $5.16 per share. reflecting growth of 11% to 15% compared to 2023 non-GAAP diluted EPS of $4.50.

As a reminder, our 2024 guidance does not include any associated benefit from potential insurance claim proceeds related to last year's cyber incident. Our policy has a $60 million claim limit on an after-tax basis with a $5 million retention.

We have begun the process of filing a claim and believe it is covered under our cyber policy, although final resolution remains subject to insurer approval. We do not expect to begin recording any benefits from the claim recovery until later in the year.

Our 2024 adjusted EBITDA growth is expected to increase by more than 15% versus 2023 adjusted EBITDA of $984 million. Our 2024 total sales guidance is now expected to be 8% to 10% growth over 2023 versus our previous guidance of 8% to 12% growth.

This projected growth reflects continued recovery by our distribution business from the cyber incident and a strong pipeline of new specialty products and software innovation contributing to higher sales growth in the second half of the year.

We expect modest overall equipment sales growth for the remainder of the year, with traditional equipment sales in line with last year and strong growth in Technical Services and CAD/CAM equipment. This sales guidance also includes sales from the acquisitions we have completed to date.

Our 2024 guidance is for current continuing operations as well as acquisitions that have closed does not include the impact of future share repurchases and potential future acquisitions.

Guidance also assumes that foreign currency exchange rates are generally consistent with current levels and that end markets remain consistent with current market conditions.

With that, I'll now turn the call back to Stanley.

Stanley M. Bergman - *Henry Schein, Inc. - Executive Chairman & CEO*

Thank you, Ron. As investors can hear, we continue to make good progress in restoring sales to pre-incident levels with specific focus on bringing back episodic customers and advancing several programs, of course, to reinforce to our customers the value and benefits Henry Schein provides to our customers.

Again, we have made steady progress in this area. and are quite optimistic as we restore our sales on the distribution side to pre-cyber incident levels and beyond. We are making good progress with the BOLD+1 strategic priorities, which are driving growth and further strengthening our business and value proposition.

You can see from the investor package posted on the website, that in each area of the BOLD+1, we are executing quite well. The new innovative products and software enhancements, clinical digital workflow for dental implants some good work in the endodontic and orthodontic areas should positively impact momentum as the year goes by.

These new innovations, coupled with sales growth we are seeing from our recent acquisitions, should enable us to meet both short and long-term expectations and are hopeful that we could even exceed that. So with the overview of the business and our financial results, we are ready to take questions.

Operator, we're ready if you are. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question comes from the line of Jason Bednar with Piper Sandler.

Jason M. Bednar - *Piper Sandler & Co., Research Division - Director & Senior Research Analyst*

Stan or Ron, I wanted to start on gross margin. That was really the biggest positive surprise in the quarter to us. By our model, you're at a record high, and that's in spite of volumes maybe being a touch lighter than we would have thought.

It doesn't seem like segment mix explains the entirety of that margin result. So just wondering if you can unpack for us the drivers here that pushed you to nearly 32% gross margin in the quarter?

And then could you also speak to the confidence in this line or the sustainability of this performance as we look over the balance of the year, can gross margins stay up near this level?

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

Jason, I'll start and I'll let Stanley jump in if anything he wants to add on this.

I think it is largely mix. I mean we have had a little bit of a depression in the distribution businesses as we continue to come out of the cyber incident. We're happy with the growth we're seeing in value-added services. Very happy with -- while it has been a challenging end market on some of the specialty side, but some of the growth we're getting there.

So the mix on the top line is helping with that gross margin. But it is consistent with our strategy. That's why we did the acquisitions we did last year. These are higher-margin businesses. And as we said in the prepared remarks, these businesses will start contributing to growth on that gross margin.

Will it be the same for the balance of the year? A lot of that will depend on the ongoing recovery that we're seeing in the distribution businesses. But I do think that it is consistent with our expectations and with the strategic plan.

Stanley M. Bergman - *Henry Schein, Inc. - Executive Chairman & CEO*

So thank you, Ron. Jason, as you know, we have been investing in high-growth, high-margin businesses for the past several years. We -- last year, we had quite a bit in that direction. Not all of those have been in place for the full year. But in general, the mix towards high growth, high margin has increased. Number one.

Number two, the margins on the distribution side are doing quite well. And we did offer quite a few discount programs in the fourth quarter, a little bit in the first quarter, but not much. And generally, we're restoring margins quite nicely on the distribution side.

So mix and the fact that our distribution businesses are doing well from a margin point helped drive the margin -- the gross margin up. And as Ron said, we're quite comfortable with the fact that we're going to continue in this direction going forward.

Jason M. Bednar - *Piper Sandler & Co., Research Division - Director & Senior Research Analyst*

All right. Very helpful, both of you. And then as a follow-up, I wanted to ask on dental equipment. I know the message last quarter was one of a shortfall in deliveries tied to the cybersecurity incident. A lot of that business would shift into the first quarter and eventually be realized, dental equipment didn't show as much growth as what we were looking for. What was the shift out of the fourth quarter, maybe just simply not as large as we would have thought we were just over modeling that? If I guess, was that consistent with your expectations, what you saw in the first quarter?

And then just trying to understand, I appreciate the comments on the outlook for dental equipment this year. but really trying to see relative to where we were a few months ago, if you're seeing private practices or DSOs, taking any kind of different approach with their capital equipment budgets? Or is it really just status quo out there?

Stanley M. Bergman - *Henry Schein, Inc. - Executive Chairman & CEO*

It was hard to gauge exactly how much business will flip from 1 quarter to the other, Jason. Remember also our equipment people in the fourth quarter last year were very much engaged in providing support to customers during the incident period.

And that actually took up a lot of their time. So I'm not saying we lost that business to our competition, but our equipment people are used to going into dental offices to identify opportunities and harvest those opportunities. We were on a relative pause in the fourth quarter with the hunting for new equipment.

We've restored basically the equipment backlog to where it was pre-pandemic period. We think that the market is quite good. The traditional equipment has stabilized. It's not where it was during the peak in the post COVID recovery period but it's stabilized, and it's quite good.

The whole CAD/CAM area is doing quite well. The pricing has stabilized. I don't think the discounting we saw several quarters ago is in place any longer. It's pretty stabilized. It doesn't mean that there may not be a newer unit coming out less features, lower price in the future, but I don't think that will cannibalize the business today.

Where we were a little bit surprised is digital imaging, which decreased slightly I'm not sure if that is a temporary situation or may be there for a couple of quarters. We've seen this in the past. I don't believe it's a permanent issue. I think digital imaging continues to grow, but we did seem to see a bit of a pause. Like, by the way, we saw a pause in CAD/CAM equipment on the milling side a few quarters ago, and that's come back.

So overall, I think it's best to be a little bit cautious and project a modest growth. Hopeful that it will be a little bit higher than that, but we're taking a more cautious approach at this time.

I don't think private practices have pulled back a lot. There's a little bit because of the interest rates. A few of the larger DSOs have paused a bit. But on the other hand, there are a lot of DSOs that are actually in the market right now and buying equipment and actually installing equipment. So it's a mixed bag over there.

Operator

And the next question comes from the line of John Block with Stifel.

Jonathan David Block - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Stanley, maybe you could provide some more color on the implant market growth and how you're faring from a share perspective. I don't know, maybe that worldwide market is growing low single digits. It seems like you guys grew low single digits in implants in the quarter on an organic basis, but I think you're under indexed in China relative to peers where a good amount of growth came from in terms of the other players. So do you feel like you're capturing share more prominently sort of on an apples-to-apples basis where you guys actually compete? And then I'll ask my follow-up.

Stanley M. Bergman - *Henry Schein, Inc. - Executive Chairman & CEO*

Yes. It's a very good question. I'm glad you asked it, which is a lot of confusion. First of all, we do not really participate in a significant way in the Chinese market. We do have -- our Medentis business does some work in China. We have a little bit of Camlog and that business has not really been impacted, it's relatively small.

While the implant end market is experiencing selective pockets of price sensitivity, and that's mainly in the full arch implants, I think it's very important to understand that this has not directly impacted our business. As our price point is lower than other premium brands, and our customers are generally less focused on the full arch procedure.

I think that's very, very important. There are small groups of customers that are focused on price, the value offering and that we have listened to compete with now.

Our product line has generally been well priced in the premium area. I think some of our competitors have had to come down to our pricing. But overall, generally, we're very well priced in the premium area. We've been viewed as a discounter if you will of premium products and the quality of our products are very good and available at relatively favorable pricing to both private practitioners and DSOs.

So I think the part of the market we participate in has not really been as impacted from our point of view as perhaps some others. Of course, the favorable launch in Germany of the iSy 2.0implant system, qualitatively, it's good. It's a good price. It has helped us in Germany where we have a very strong market share. And when we introduce new products, they're generally well received in Germany.

The customers understand that the value is good and the product is well tested. And we actually think that with customers being focused practitioners on price, we are well positioned to expand our market share. Continue to expand, if you will.

And we have, in the United States, this new bone level implant with a deep conical connection, has proven technology that we believe will expand our market position and our opportunity quite significantly in North America, U.S. to start with, with this addressable market that we really haven't been able to address could be as much as 40% to 50% of the market that we haven't been able to address that we will be able to address with our new product launch later this year.

Jonathan David Block - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Got it. That was great. That was very helpful. And maybe just a quick one, Ron, for you. The Street was 9% or even below that top line. We were at 8% for 2024 anyway. But I'm just still looking for a little clarity on where the top end of the sales guidance is, call it being locked off.

In other words, is it market related? Is it lower trajectory of cybersecurity recapture? Is it stronger dollar or all of the above when we think about things relative to February.

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

Yes, John. It's not -- there's not a whole lot of fluctuation that we're expecting on FX. I think we can kind of carve that piece out, that might be a minor impact. We still expect acquisitions to have a similar contribution than what we were saying with the original guidance as well.

So it really comes back to that kind of end markets a little bit on -- more on the distribution side, whether that be cyber recovery or end markets, as you can appreciate, as we get further and further out from the cyber incident, that assumption gets a little softer in terms of which is which, right?

So we're really looking at the market as we like the progress we made during the quarter with sales -- so-called sales recovery of certain customers. We think we can maintain that momentum into the year. But there -- as we look at the different projections there, we kind of played it out and we thought 8% to 10% would ultimately get us to a more accurate revenue rating than the original 8% to 12%.

Operator

And the next question comes from the line of John Stansel with JPMorgan Chase & Company.

John Paul Stansel - *JPMorgan Chase & Co, Research Division - Analyst*

Just on the technology side, I appreciate that the Change cybersecurity event impacted the business a little bit here. Is it the right way to think about performance impact as kind of the difference between that 3.2% global internal growth and say, like a mid-single to high single-digit growth number that you would kind of have been producing over the last few quarters?

And then just what portions of the business were directly impacted. And kind of how are you seeing the help of dentists as they kind of manage through these kind of claims processing and benefit verification headwinds?

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

Yes, John, on the Change Healthcare effect, what we did see with Henry Schein One is that we had a relatively steady revenue growth during the quarter that stagnated a bit in March. And that's -- we attribute it to what we saw with Change.

We have seen the company return to a more normal level of growth since then. So to your original question, yes, we would -- our expectations for Henry Schein One and on the technology side was that there would be better growth than that 3% plus you saw in the LCI. So we do expect that to be higher.

And as we come out of the kind of the disruption that was caused by the Change management cyber incident, we believe that we will achieve that projection.

It did -- the Change management issue was interesting in the perspective that it did create a bit of a cash crunch for some of our customers, we were able to help alleviate that through some assistance through revenue cycle management tools that we had. But we did also extend terms to some customers.

We also did seek -- they pulled back on perhaps acquiring new technology products for a period of time, and that's where we saw the stagnation in revenues in Henry Schein One.

But I do think that and quite frankly, we expected -- overall, we expected, for example, to have better operating cash flow in the quarter, but our receivable balances were still slightly more elevated than what we originally expected because of a lot of practices that we're kind of managing cash as they work their way through that disruption. But we're seeing things get back to normal with that.

So I do believe that our technology business and as we mentioned in the prepared remarks, there are some new products, some new software products that will be -- that we're launching that we're introducing to customers that we think will continue to support that growth going forward.

Stanley M. Bergman - *Henry Schein, Inc. - Executive Chairman & CEO*

John, let me just add 1 more comment to what Ron said and Ron provide a very good outline.

Our ability to immediately, within 48 hours, process claims through an alternate methodology was very well received. Having said that, it took up a lot of resources that perhaps would be focused on sales, and we're focused on ensuring that our customers were able to process the claims.

But more important, answer problems that emerged as a result of the issues with Change. I would say that a huge number of dentists are most appreciative of Henry Schein's response. They were involved in basic operational issues in their practices, took a lot of their resources. We helped them, it took a lot of hours.

And so they were also focused on managing their cash. I think we're largely out of that, although these claims are not being processed through Change but are being processed on an alternative provider that we have a relationship with.

John Paul Stansel - *JPMorgan Chase & Co, Research Division - Analyst*

Great. And then just one on the medical distribution business. There's been a lot of discussion in the market, albeit more on the inpatient side or for medical distributors around kind of competitive balance and different net wins on contracts.

How are you seeing the competitive balance for -- between distributors in the alternative side of care market and how that's driving different competition?

Stanley M. Bergman - *Henry Schein, Inc. - Executive Chairman & CEO*

I don't think that's an issue for us. There's a lot going on, I think, with some of the other parts of distribution on the drug side. Maybe on the medicine side, with acute care settings.

I think we're still doing pretty well on winning these awards. I think we've got -- our business is largely restored from a -- I mean it's fully restored, we think, from a large customer IDN point of view.

There is some generic pricing pressure -- generic drug pricing pressure. On the other hand, that's pretty good for profits. But if you take that out of it and you take out of it, the lumpiness of the test, I think you'll see our medical business is in pretty good shape.

We are continuing to win awards, new awards, and we're not really losing any existing customers. I don't think what's being experienced in other parts of health care distribution is impacting us. We're very isolated from what others are going through.

We have a very unique service, highly appreciated and our customers were very loyal to us on the IDN and group side during the incidents. We still have some of this business where customers are looking for pricing, that's in the smaller practice, we call it episodic. And we're recovering and working on that just like we're doing on the downside.

But the infrastructure is in place for service these larger customers, the IDNs and the group practices that is highly, highly appreciated. It's not the issue at all for us.

Operator

And the next question comes from the line of Jeff Johnson with Baird.

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

I wanted to talk about the North American dental consumables number that you put up, the down 5%, I think if we adjust for that cyber number, you said 300, 400 basis points down 1% to 2%. That fits pretty well with some of the independent industry data that came out in 1Q.

I think it showed the North American market on the merchandise side down a couple of percentage points on a revenue basis as well.

So one, is that your take on the market. The market is kind of down in that low single-digit negative range right now and you guys are kind of in line ex cyber.

And two, I think the other interesting thing in that independent data was that volumes were actually up a couple of points, but revenue is down a couple of points. So maybe what are you seeing your customers doing from a trading down for maybe premium branded to other kind of lower-priced branded or even your private label products? Has there been a change in that dynamic over the last 6, 12 months relative to historical?

Stanley M. Bergman - *Henry Schein, Inc. - Executive Chairman & CEO*

Jeff, you're asking, again, another good question here. I think pricing is relatively stable. If you look at raw data and we look at that, of course, from our database, inflation is maybe 1% to 2%.

Having said that, there's also a movement towards corporate brands. And that kind of washes out a big part of that 1% to 2%. And there could be a few -- in some areas, a few even less take out the glove business, where there is definitely some pricing pressure, continues to be, I think, Ron described that a 60 basis points or so company-wide.

Dental within that range as well. I think pricing has stabilized. I think our margins are pretty stable. Manufacturers, some of the bigger ones are understanding they probably have to be more competitive and the little guys, the midsized practices are continue to do okay.

But I would say, this quarter, it's a lot more stable than a while, say, 2 or 3 quarters ago. So I think pricing has stabilized and margins have stabilized and our challenge is the recovery, these episodic customers, not the large group practices, not the midsized practices we actually, we think we're gaining.

So, we have to just continue with the episodic, those that buy through our website comparing prices. That's where we have to do.

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

All right. That's helpful, Stanley. And then, Ron, maybe just 1 quick follow-up, just on that 300 to 400 basis point cyber impact.

Would it be fair for us to split that kind of over your medical and your dental business combined? Is it about an equal impact there? You've mentioned both these episodic and larger customers, I think, in kind of your prepared remarks in both areas, number one.

And number two, do we look at that 300 to 400 basis points as being kind of stable? Is there anything you can say about kind of maybe the exit in March recapture rate versus kind of how you went into the year, just where to think maybe where that 300 to 400 basis points pressure from cyber goes over the next quarter or 2?

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

Yes. To answer the first part of your question, Jeff, yes, the spread and the impact on Dental and Medical is pretty consistent, right? It's not the one bearing the brunt more so than the other.

I would say it's difficult to assess kind of going forward. Like I said, the further out we get from the cyber incident to determine how much of the revenue base and how much of the market share that we're managing is attributable to cyber. That gets more and more difficult.

But we have taken a look at this and any impact on revenues that we believe we have out there is contemplated in the revenue guidance and the related impact on earnings has been contemplated when we have in the affirmation of the EPS guidance as well.

Operator

And the next question comes from the line of Elizabeth Anderson with Evercore ISI.

Elizabeth Hammell Anderson - *Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst*

I was looking on the medical environment. We have heard of higher sort of some outpatient utilization trends broadly in the market.

How do we think about some of those trends continuing and sort of the ordering patterns between like procedures or some of your ambulatory surgical clients and then sort of the impact on their ordering as we move through the year?

Stanley M. Bergman - *Henry Schein, Inc. - Executive Chairman & CEO*

So Elizabeth, I think the shift from the acute care setting to the alternate care setting for procedures continues. I don't think it was more profound this quarter than the past year or 2.

I don't think there's any shift -- significant shift in either increase or decrease in procedures in any 1 or 2 procedures, maybe there are isolated procedures, I don't know.

But in general, the major procedures are consistent, at least from our point of view, from quarter-to-quarter. And it's a growing area from our point of view, both in terms of some internal growth with existing surgery centers, ASCs and also we're gaining new accounts in that area.

So it's pretty much consistent that procedures are moving from the acute care setting to the alternate care setting and are relatively stable within a particular center.

Elizabeth Hammell Anderson - *Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst*

Got it. And then maybe as a follow-up, as we sort of think through some of the cost cuts, et cetera, as your moving on, one of the things it seems like SG&A was a touch higher than at least we were modeling here in the quarter.

And I just wanted to understand about the cadence as we think about the back half of the year and sort of any of the impact of some of the cost restructuring as you've -- and how they materialize as we move across the quarters.

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

Yes. Elizabeth, the SG&A, the whole kind of mix of the P&L of some of the businesses that we acquired last year are going to be a little different, right?

With the higher gross margins, but then greater expenses as it might relate to R&D and other selling costs associated with some of those businesses. So that's you're seeing that show up in the consolidated P&L a little bit more. So some of the favorability we got on the gross margin side was the offset on the SG&A side.

I think in terms of cadence, it's going to be with these businesses having a greater importance in our P&L as we go forward, it could get a little lumpier, a little less predictive with the SG&A, but I would suspect that over time, it will be something fairly consistent with what we had in the first quarter as well.

Operator

And the next question comes from the line of Mike Petusky with Barrington Research.

Michael John Petusky - *Barrington Research Associates, Inc., Research Division - MD & Senior Investment Analyst*

So Stanley, I'm wondering, you've had PRISM for a few years and Shield I think for a couple of quarters. I'm just curious, home health, obviously, large end markets, presumably opportunities for above-average growth. I'm just curious.

Is home health something that you now can sort of say, hey, we feel really good about this, we want to build this into something really big over time? Or is this a little bit different than you thought? And maybe you just sort of stick with the assets you have?

Stanley M. Bergman - *Henry Schein, Inc. - Executive Chairman & CEO*

Thank you, Mark. Thanks for that question. Home Care Solutions continues to be a big area for us going forward. We continue to expect to grow organically, make some additional investments. Our business is approaching $350 million annually, $20 million a month or so. And we expect that to continue to grow nicely from an organic point of view, and we will add to that platform.

At the moment, we are moving those businesses to a common platform so we can provide a national service with high customer service. We believe that the business complements our physician business very nicely, our ASC business, and we're very, very optimistic about our Home Solutions business as well as our North American Rescue business, which provides first responder and military medical solutions, these 2 are areas that are doing quite well in our medical portfolio.

Michael John Petusky - *Barrington Research Associates, Inc., Research Division - MD & Senior Investment Analyst*

Okay. Great. And then just shifting to Dental. I guess one of the benefits of talking to anybody at Henry Schein or leadership at Henry Schein, there's a lot of folks, including yourself, Stanley, that have been in the chair for a long time. You've seen different markets and different challenges and all the rest.

And it just seems among investors right now, there's just a lot of skepticism around Dental and concerns about persisting high interest rates and how that sort of flows into capital equipment decisions and concerns about pricing compression with maybe consumables, imaging products and other things.

I'm just curious, when you sort of think about the Dental space in general right now and Schein's position within it. Do you think the skepticism is sort of appropriate given the givens? Or do you think it's appropriate for others, but maybe not as much for Schein? Or can you just talk about historically the current challenges and how you see them, given your experience.

Stanley M. Bergman - *Henry Schein, Inc. - Executive Chairman & CEO*

Yes. I think, it's a very good question, too. The dental markets are relatively stable. If you look at the U.S. patient dental traffic in January and February was impacted by weather and some seasonal viruses, including the flu, but improved beginning in March and again an improvement continued through the quarter into April.

I think there are seasonal issues we need to take into account, weather, but overall, the U.S. dental market is stable, maybe leaning towards some growth. I think the same would be the case globally, especially in those markets where you have government reimbursement.

So it's quite stable. It's a good market. I think one has to be very careful reading the tea leaves when it's some basis points down in 1 quarter, some basis points up in another quarter. I think the underlying stability remains.

Yes, there is a challenge with interest rates on high-cost procedures in 1 implant we spoke about $20,000, $30,000 procedures, interest rates impact that.

But basic traffic is good. And I think these are solid markets. Change that have a little bit of an impact here in the U.S., but not materially. We'll get out of that. Our customers have decent cash flow, maybe some of them had challenges of Change. We had to support them, arrange financing for them, extended some credit terms.

But overall, I would say the market is stable. And on the equipment side, we are taking a bit of a cautious approach. In that, we've talked about modest overall equipment sales. But the basic traditional equipment is stable. The whole digital world is growing.

And I think in the long run, it's a medium term, equipment is even a good area, too. So we're quite positive about dentistry and remain that way. And if you add to that, the medical business, where procedures are continuing to move from the acute care setting into the ultimate care setting.

And there's no material movement in terms of reducing the number of procedures in any one particular area. I think generally, the businesses we're in are positive.

We are working on recovery of our cyber business that related primarily to these episodic customers and have made quite a bit of progress in that area, too. So we're quite optimistic about the future.

Operator

And the next question comes from the line of Justin Lin with William Blair.

Justin Lin - *William Blair & Company L.L.C., Research Division - Research Analyst*

Sort of a similar question to what sort of came up earlier, but slightly different. Your Technology segment organic growth, I think, came in lower than the Street, but the reported number was relatively in line.

Did the Street just kind of mismodel that? Or was kind of the acquisition contribution, particularly from North America, was that above your own expectations as well?

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

Yes. Justin, the -- that segment includes other value-added services businesses, some of which we have acquired in the last year. So that showed up in the acquisition growth from those value-added services businesses who did have very good quarters.

They did have very good quarters. And while they exceeded our expectations, we expect them to continue to provide -- contribute good profits going forward.

Justin Lin - *William Blair & Company L.L.C., Research Division - Research Analyst*

Okay. Got it. And I guess more of a high-level question here. You obviously made a number of acquisitions. Anything you would call out. Surprising whether positive or negative relative to your expectations over the past few quarters?

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

We've been happy with all of them, some do better than others in the early stages. We are busy integrating our large implant acquisitions we did last year, Biotech, which has now annualized. That will show up as internal growth beginning in the second quarter.

We're also integrating S.I.N, the Implant manufacturer in Brazil. That will annualize 1st of July. So the second quarter will be the last quarter that shows up as acquisition growth.

So the back half of the year, we'll be reporting those numbers as part of our internal growth with the contributions we get from those 2 businesses.

Very happy with what we're seeing on the -- in the Home Solutions business. There was an earlier question there. Do we see that as an area for growth going forward?

I think the answer is definitely yes. So we're very pleased with the -- how we've been able to capitalize with the acquisition of Shield that we did last year as well as Mini Pharmacy.

And then also on the value-added services side, this is becoming a more and more important part of our approach to our customers in terms of helping them run more profitable practices, including when they want to exit their practices and large practice sales has been a very successful acquisition for us as well.

So I think when you go down the list, and I hate to keep listening them because you don't want to leave somebody out, but they have all done, we've been very happy with these acquisitions and the returns they're providing us so far.

Operator

We have time for 1 last question coming from the line of Kevin Caliendo with UBS.

Kevin Caliendo - *UBS Investment Bank, Research Division - Equity Research Analyst of Healthcare IT and Distribution*

A lot of comments around April and the back half of the year and new product launches and like there's so many moving parts with M&A and the like.

Ron, maybe can you just give us an update on cadence of what you expect revenue growth and earnings to be? Is 2Q trending as you thought?

Just trying to understand because there are so many moving parts, is this going to be a typical seasonality in terms of revenue growth, EBIT growth and especially EPS growth?

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

Yes. So as we've said before in the prepared remarks, Kevin, that we do expect sales growth to be more significant in the back half of the year than what we see in the first half of the year.

And some of that is recovery from cyber. Some of that, too, is the launches of some of the new products we're anticipating on the implant side that we talked about as well in the prepared remarks, in addition to some new technology products we have that we're launching as well.

So those are all going to contribute. Our expectation is they will contribute to greater growth in the back half of the year.

And like I said before, some of this comes from ongoing recovery from cyber. We saw encouraging recovery over the course of Q1, good momentum into Q2, but there's still some work to be done there.

So we will -- but we're confident that as the year goes on. We'll be able to continue to gain some market share on the distribution side as well. So I think that from both a sales and an earnings perspective, my expectation is we'll see better growth in Q3, Q4 than what we had in Q2.

Kevin Caliendo - *UBS Investment Bank, Research Division - Equity Research Analyst of Healthcare IT and Distribution*

Okay. That's helpful. And if I can just do a quick follow-up on the implant, the new products. What does this do to your portfolio of products? Is it improving what you had, sort of -- I've always envisioned that you're sort of between value and premium.

Are you expanding the sort of offering that you have or improving what you have? Or are you changing the positioning of any way, shape or form of your implant portfolio with the new product launches?

Stanley M. Bergman - *Henry Schein, Inc. - Executive Chairman & CEO*

In the U.S., we're expanding and we're going into about half the market that we do not cover today. We're waiting for finalization of the approval. We expect that in the second half of the year.

In international, I think our value proposition is expanding with the iSy 2.0. iSy 1.0 was good, but there were a couple of features that we're missing. We've added that to it, and it's been well received already in Germany where we launched it in this quarter.

So on the one hand, we're entering into a part of the market that we really are not in, in the United States. And at the same time, we're providing better value products in Europe.

So generally, I would say it's an expansion of the product offering plus better pricing, better value in Europe.

Okay. Operator, thank you very much. Thank you, everyone, for calling in. As you can tell, this year everyone is off to a solid start. We remain enthusiastic about the markets we serve, our position in the industry. The opportunities for growth and enhanced profitability lie ahead.

We're doing quite well on expanding our high growth, high margin portfolio. The portfolio of high growth, high margin is doing well. We expect to show some decent results also in the orthopedics section, where we're expanding our Henry Schein Orthopedic business.

And overall, we think our distribution businesses are in good shape, operationally fully restored. We have to deal with the episodic side of the business, which is growing, recovering nicely, but not fully back to where it was pre-incident.

We're growing with our large customers in Dental and Medical. And Henry Schein One continues to provide significant value to our customers as you saw from the Change cyber recovery, where we played a key role in dentistry in general.

So, thank you for calling in. We remain most optimistic about the future. And thank you very much.

Operator

And ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation.
