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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Henry Schein's second-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 my thanks to each of you for joining us to discuss Henry Schein's financial results for the second quarter of 2025. 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 analyses 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 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, August 5, 2025. 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 Bergman - *Henry Schein Inc - Chairman of the Board, Chief Executive Officer, Director*

Thank you, Graham. Good morning, everyone. Thank you for joining us.

We had good sales growth in our Global Distribution Group this quarter while experiencing lower margins in the US versus the prior year, primarily resulting from lower glove pricing as well as some time-limited targeted sales initiatives. We are pleased with the results from these initiatives and have returned to normal levels of promotional activity. Strong merchandise sales in July caused us to be optimistic about these results.

Our Specialty Products and Technology Groups continue to deliver strong results, driven primarily by sales from innovative products, solutions, and cost efficiencies and July sales also continued to be strong.

We are maintaining our full year guidance which continues to reflect earnings weighted to the second half of the year. We expect 2025 to be the base year from which to grow and achieve our previously provided long-term goal of high single-digit to low double-digit earnings growth.

We are partnering with KKR's Capstone. We have engaged two leading global management consulting firms to support our efforts to enhance distribution gross margins, including accelerating sales of our owned-products portfolio and support our ongoing company-wide initiatives to increase efficiencies.

We expect these projects, which expand on our BOLD+1 strategy to start producing results towards the beginning of 2026 and will support our ongoing initiatives to drive superior customer satisfaction and our financial goal of high single-digit to low double-digit earnings growth. We expect these projects to streamline processes, partially through introducing new technology, including AI solutions thereby enhancing the customer experience and improving efficiencies.

Let me touch on a few of the highlights from the quarter that advance our BOLD+1 Strategic Plan. Overall, we believe we are continuing to gain market share across the portfolio. Our customers highly value our price value commercial model which encompasses technical support, the industry's broadest product offering, including corporate brand, customer loyalty programs, advanced value-added services, business analytics, and reliable next-day high fulfillment.

We achieved over 45% of our non-GAAP operating income from high-growth, high-margin businesses during the quarter, driven by sales growth and profitability in our high-growth, high-margin businesses, which outpaced growth in the rest of the business. We remain on track to achieving our goal of 50% -- over 50%, should we say, of our total non-GAAP operating income coming from these businesses. Plus, in addition to that, 10% or more coming from our corporate brands.

In the United States, our Medical business continued to show strong results, including our Home Solutions platform underscoring the strength of our strategy of following the patient inflow. We continue to implement initiatives to right size expenses in our distribution businesses and corporate functions and consolidated various manufacturing facilities. We now expect the run rate for these savings to be slightly over \$100 million by the end of the year and beginning in 2026, we expect further enhanced profitability as a result of our new value creation initiatives. And after our team successfully launched our new global e-commerce platform, henryschein.com in the UK and Ireland, we have begun a phased launch in North America, first in Canada and now in the United States that will continue into the fourth quarter.

Turning now to a review of our businesses. Let me start with the Global Distribution & Value-Added Service group. We achieved volume growth in our US Dental merchandise business but at lower average selling prices compared with the second quarter of 2024, primarily due to glove pricing and limited targeted sales initiatives. We have also invested in sales talent and as mentioned earlier, along with our targeted sales initiatives, we expect this will accelerate merchandise growth as reflected in our July sales results.

US dental equipment sales were temporarily impacted by market uncertainty related to tariffs in the second half of the quarter. Dentists are continuing to invest in their practices and the order intake has since returned to normal. There was a rebound in new office design activity in June, and our equipment backlog recovered with some of these installations being deferred into the third quarter.

Overall, this supports our view that the equipment sales will improve in the second half of the year. We are seeing good volume growth in the digital equipment arena but at a lower average selling price as the growth has primarily come from entry-level intra-oral scanners.

Moving on to the United States business. The United States Medical business, sales grew mid-single digits for the quarter. Patient traffic increased steadily. Our sales reflected strong growth in medical products and pharmaceuticals, particularly -- sorry, partially driven by new accounts and the continued outperformance by our Home Solutions business.

International dental merchandise sales growth was steady during the quarter, although April was impacted by the timing of Easter. Sales growth was particularly strong in Brazil. International dental equipment sales growth was strong in Canada and across Europe, particularly in traditional equipment. Growth was bolstered by this year's International Dental Show in Cologne. Digital equipment volumes grew well with sales at a lower selling price or a lower average selling price. Sales of parts and service in both the US and internationally continue to grow well in the mid-single digits.

Value-Added Services sales growth was impacted again this quarter by lower sales in our practice transitions business as a result of a high prior year comparable. This is a high-margin business where sales fluctuate quite a bit from quarter-to-quarter. We have a strong pipeline of active transactions that we expect to close throughout the remainder of the year.

So let's now go to the Global Specialty Products Group. As a result, this group includes -- as a reminder, this group includes implants and biomaterials as well as endodontic, orthodontics, and orthopedic products. Sales in the second quarter reflected accelerating growth in dental implants and biomaterials and endodontic consumables. Profits were also bolstered by a recent consolidation of manufacturing facilities.

We are pleased with the sales growth of our implants business, which grew mid-single digit in constant currencies, and we believe that we continue to gain market share in the implant and bone regeneration area. Specifically, we achieved double-digit growth in value implants, driven by our S.I.N. and Biotech Dental Implant Systems that were complemented by low single-digit growth in our premium brand BioHorizons Camlog.

Our US implant sales grew low single digits and reflected the continued rollout of the BioHorizon's Tapered Pro Conical implant, which is gaining momentum. SmartShape healer buttons, sales also continued to grow supported by the expansion of our BioHorizons sales force in the US. This expansion is expected to increase sales on a continued accelerating sales growth basis.

European implant growth this quarter was impacted by the timing of Easter. Momentum accelerated in the later part of the quarter and the business is doing well in the first -- in the third quarter. Orthodontics remain a small part of the Specialty Products business, and we continue to work to improve this business.

Now, finally, our Global Technology Group sales accelerated during the quarter driven by strong growth in our core practice management system solutions business, particularly our cloud-based platforms, including Dentrrix Ascend in North America, and Dentally outside of North America as well as strong growth in our revenue cycle management offerings, including e-claims, electronic billing, and patient messaging. As a result, we are driving growth in annual recurring SaaS subscription revenues and increasing adoption of transactional services.

Practice Management software growth was in the mid double digits driven by a 20% year-over-year increase of cloud-based customers. We now have over 10,000 customers subscribe the Dentrrix Ascend and Dentally systems. We believe our One Schein marketing approach enables greater

customer adoption of the Henry Schein One platform and provides us with a unique competitive advantage. This platform differentiates us by seamlessly integrating workflows through technology to create meaningful operational efficiencies. Our workflow integration deepens customer engagement and reinforces our ability to deliver scalable, reoccurring solutions, and revenue growth. The overall technology business and our own brands businesses, specialty businesses are all doing well.

Let me comment for a minute on the announcement that I'll be retiring as CEO at the end of the year, while continuing to serve as Chairman of the Board. It has been an incredible journey over the past 45 years, and I'm very pleased with all that Team Schein has accomplished over this time. Many transitions; from a mail order, a small mail order dental distribution business, to a global provider of products and services to the dental community and to the alternate care side. Many, many changes along the way, expansion of the product and strengthening the product offering, the services we offer and strengthening of our management team as well as the team in general.

It has been especially gratifying to have worked with the tens of thousands our incredibly committed and talented Team Schein members who reimaged and reinvented Henry Schein's role, as I mentioned, from one of product delivery and logistics to one whose mission today is to help over one million healthcare professionals operate better and more efficient practices so that our customers can focus on outstanding clinical care.

Thank you to each and every Team Schein member for your individual and collective efforts in playing such an important part in building our unique company. Thank you to our investors for your support in almost 30 years as a public company come in -- full 30 years come this November.

As part of succession planning over the years, the company has focused on developing the next generation of leaders and earlier this year, simplified the business by separating into three operating divisions, each with outstanding leadership. I fully expect that Andrea Albertini, CEO of the Global Distribution Group, and who also has responsibility for the Global Technology Group from our investment point of view; and Tom Popeck, CEO of the Global Specialty Group, together with the rest of the company's Executive Management Committee. I expect these two leaders, together with the EMC to elevate Henry Schein to new heights, continuing to advance the BOLD+1 strategy in conjunction with KKR value creation initiatives and a broad-based employee ownership program.

Guided by our purpose-driven mission, we've built an agile company that meets the evolving needs of our customers with much more to come. We've also created significant shareholder value and positioned Henry Schein for continued growth and success. Of course, I remain fully committed to Team Schein and look forward to working with the Board to identify my successor and effect a smooth transition. I'm committed to doing this, of course. In the meantime, the team remains focused on advancing our BOLD+1 strategy thereby driving value for our customers and, of course, our shareholders.

Let me now turn the call over to Ron to review our second quarter financial results and discuss our 2025 financial guidance. Ron, please.

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

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 have also included a financial presentation containing additional detailed financial information.

Starting with our second 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 \$3.2 billion, with sales growth of 3.3% compared with the second quarter of 2024. Constant currency sales grew 2.7% with 0.6% attributable to foreign currency exchange and 0.8% growth from acquisitions.

Our GAAP operating margin for the second quarter of 2025 was 4.67%, a decrease of 42 basis points compared with the prior year GAAP operating margin. On a non-GAAP basis, the operating margin for the second quarter was 6.96%, a decrease of 79 basis points compared to the prior year non-GAAP operating margin, driven by lower gross margins within our US distribution business due to lower glove pricing as well as targeted initiatives to accelerate growth in market share.

In addition, operating income was impacted by higher operating expenses compared to the prior year, attributable to acquired companies, foreign exchange, increased technology and marketing investments in anticipation of the launch of henryschein.com, and non-income tax credits in the

prior year that did not recur this year. We continue to drive improved operational efficiency by integrating acquisitions and restructuring as well as executing our new value creation programs.

Second quarter 2025 GAAP net income was \$86 million or \$0.70 per diluted share. This compares with prior year GAAP net income of \$104 million or \$0.80 per diluted share. Second quarter 2025 non-GAAP net income was \$135 million or \$1.10 per diluted share. This compares with prior year non-GAAP net income of \$158 million or \$1.23 per diluted share.

Adjusted EBITDA for the second quarter of 2025 was \$256 million compared with second-quarter 2024 adjusted EBITDA of \$268 million.

Turning to our sales results. The components of sales growth for the second quarter are included in Exhibit A to 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 & Value-Added Service group.

US dental merchandise sales declined 1.2%, resulting from increased volume offset by lower product pricing. US dental equipment sales declined 4.7% and resulting from economic uncertainty beginning in May. Both traditional and digital equipment sales growth declined. As Stan mentioned, there was a rebound in new office design activity in June, and we expect equipment sales to grow in the second half of the year. We are pleased that sales grew by 6.3% in our US medical distribution business, reflecting increased patient traffic and our Home Solutions business having another strong quarter.

International dental merchandise sales grew 1.9% or 0.5% in constant currency and was impacted by the timing of Easter. International dental equipment sales were good and grew 12.1% or 9.1% in constant currency, driven by strong sales growth in Canada, Germany, and Austria and New Zealand. Finally, Global Value-Added Service sales grew 3.6%. Sales growth was impacted this quarter by lower sales in our practice transitions business, partially a result of a tough comparison in the prior year.

Turning to the Global Specialty Products Group. Sales grew 4.2% or 3.3% in constant currency. Our implant and biomaterial business experienced solid growth in the second quarter including double-digit growth in our value implants and low single-digit growth in premium implants. Our orthodontic business sales declined year-over-year, but at a slower pace than in prior quarters. As we previously discussed, this business is being reorganized to support future profitable growth.

We also had strong results in the Global Technology Group with total sales growth of 7.4% or 6.6% in constant currency. In the US, sales growth was driven by revenue cycle management and practice management software with double-digit growth in Ascend. Internationally, sales growth was primarily driven by our Dentally cloud-based practice management solutions, as well as strong growth in Canada.

Turning to restructuring. Our restructuring expenses in the second quarter were \$23 million or \$0.13 per diluted share. These expenses mainly relate to severance benefits. We now expect to achieve annual run rate savings of over \$100 million by the end of 2025, which is when the current plan is expected to have been completed.

As Stan mentioned, we have initiated two important value creation projects to enhance distribution gross margins, including accelerating sales of our own products portfolio as well as company-wide initiatives to increase efficiencies. We will provide a further update on these initiatives on our upcoming third quarter earnings call.

Regarding share repurchases, during the second quarter of 2025, the company repurchased approximately 3.7 million shares of common stock at an average price of \$70.88 per share for a total of \$259 million. This included approximately 3.1 million shares of common stock under the previously announced accelerated stock repurchase plan at an average price of \$71.60 per share for a total of \$223 million, which followed the company's sale of 3.3 million shares of common stock at an average price of \$76.10 per share for a total of \$250 million to KKR. The ASR plan was completed in July.

In addition to the ASR plan, the company repurchased approximately 0.5 million shares of common stock at an average price of \$67.36 per share for a total of \$36 million. The impact of this share repurchases on second quarter diluted EPS was immaterial. At the end of the quarter, we had

\$432 million authorized and available for future stock repurchases plus a further \$27 million authorized under the ASR, which as mentioned, has now been completed.

Turning to our cash flow. We generated operating cash flow of \$120 million in the second quarter of 2025. We still expect operating cash flow to exceed net income for the full year. This quarter, we invested in additional inventory in the US as part of our plan to mitigate the effects of tariff increases. Our accounts receivable also increased slightly in line with sales growth. As a reminder, working capital is still returning to normal levels in the second quarter of the prior year following the cyber incident, resulting in stronger than normal cash flow.

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

We are maintaining our 2025 financial guidance. As a reminder, this is as follows: We expect non-GAAP diluted EPS attributable to Henry Schein, Inc., to be in the range of \$4.80 to \$4.94. 2025 adjusted EBITDA is expected to grow in the mid-single digits versus 2024 adjusted EBITDA of \$1.1 billion. 2025 total sales growth is expected to be 2% to 4% over 2024, and we expect a non-GAAP effective tax rate of approximately 25%.

Our guidance assumes that foreign currency exchange rates will remain generally consistent with current levels that the effects of tariffs can be mitigated and also includes expected remeasurement gains related to the purchase of controlling interest of previously held noncontrolling equity investments, consistent with our business strategy. Our 2025 guidance is for current continuing operations and includes acquisitions that have closed. It does not include the impact of restructuring expenses and other items detailed in our press release.

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

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

Thank you, Ron. Thank you, everyone, again, for calling in. So we believe Henry Schein is well positioned to accelerate growth. Of course, we're happy to answer any questions that investors may have.

We -- with respect to our distribution business, we are pleased with the results from the time-limited targeted sales initiatives, which, together with the rebound in equipment orders and momentum in our medical business sets us up well for growth for the second quarter -- for the second half, third, and fourth quarter.

The results from our technology, value-added services, and specialty businesses are strong, and we look forward to this continuing into the second half of the year as well. We are also excited about the significant opportunities from our new value creation initiatives, and we are optimistic about returning to high single-digit, low double-digit earnings growth.

So with that overview, operator, we're ready to take questions from investors.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jason Bednar, Piper Sandler.

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

Stan, a big congrats on your announced retirement. You've had such an enormous impact over the years in the dental community, the investor community, employees, you're going to be missed around here.

For my first question, I did want to start with the dental business. And hoping to touch on a couple of topics. One, you referenced a good July for merch without those above normal promotions continuing. Maybe you can give a bit more color on what you're seeing with respect to patient traffic, spending in the dental office and just the confidence you have on the sustainability of these better trends that you were seeing in July?

And then two, can you talk about the customer conversation around price increases from tariffs and how you're navigating these discussions to both retain share and protect margins?

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

Thank you, Jason, for your compliments on my years here at Henry Schein and on the retirement. I have to say it's been a pleasure working with the analysts that cover us. I mentioned to our team earlier on as we prepared for this call. This is my 119th call with investors. And although every quarter is a challenge, never easy in a public company, I've really enjoyed working with The Street very much, I have learned a lot.

July trends, July trends at Henry Schein are positive. We're quite pleased with the momentum. In fact, spent a little time last night with our senior dental sales team who are in town for a strategic meeting and they feel very strong. There were customers we had that had left us during the cyber incident and these promotions got them back, many of them back. And I think our customers understand the value that we provide. As they test us, the ones that left and as they test more and more our systems, not only for consumables, but for equipment and the value-added services. So across the board, we're having a good July from a sales point of view and from a general understanding by our customers of the services that we offer.

As it relates to patient traffic, we generally believe that in the markets that we serve. Now, there are parts of dentistry that we don't really serve in a significant way. But the parts that we service, we believe that patient traffic is relatively stable. Of course, there are some challenges in specific countries, but there are also other countries where maybe it's a little positive, but we are doing very well. Overall, we believe that patient traffic in our dental distribution businesses continues to be flat globally. So that's traffic per se, but we -- as we noted, we continue to believe that we are either maintaining or actually growing market share across the board.

We believe in the US for the dental merchandise sales, which is flat, with some price increases relating to tariffs, but generally, not much price increase from manufacturers and because of the tariffs, because customers are concerned with pricing, customers are moving towards our owned brands. And I have to say also to brands, to manufacturers that are prepared to provide customers with moderate prices. And these include second-tier manufacturers. But I would say also some of the national brand manufacturers are also offering us opportunities to sell their products in a way that bite into any potential tariff increases.

So the US dental market growth is still impacted by staffing challenges and remains challenging to recruit [hygienists], offer support also challenged, but not as bad as it was, say, a year ago, and -- but practice productivity is going up. Dentists are investing in devices to increase productivity. So I think it's -- for us, in any way, in any event, it's leaning flat to slightly positive with opportunities and I think results in the specialty areas, in our medical business, in the software field, clearly, customers are investing in software to increase productivity. So it's very difficult to give you specific data about countries outside of the United States.

Canada is established, I would say, but we're doing very, very well in Canada. I think some of that is because of our large customers. But generally, for the normal customers as well, smaller retail, what we call the retail customers. EMEA, we believe patient traffic is stable, particularly in governments where -- in markets where government reimbursement is there. So overall, I think we can report a relatively stable dental patient traffic market. I think that dentists are in good shape. They're buying, they're paying. Cash flow is okay.

Of course, there are all sorts of concerns, particularly in -- we noticed in the last six -- last half of the -- put this way in the middle of this quarter, there was a pullback on buying of equipment. I'm not saying dentists didn't place orders, but they didn't want shipments because of the potential tariff situation. But I think that has gotten easier. It's eased a bit. And the backlog is pretty good again. Interest rates are not an issue. We thought they would be about a year ago, but customers are accustomed to the interest rate now. As it relates to tariffs, I would say our customers fully understand that there are going to be tariff increases, that we can't absorb these tariff increases. And generally, where we passed on the tariff increases, they've stuck.

Yes, some customers will look to find alternative options, particularly on products, and we are there with our own brands, products. One little wrinkle and that's the area of gloves. That's become highly competitive. But I also believe that's going to be an area where Henry Schein will do okay, because our brands are very good, and we service all the various price offerings in gloves. So this has been a market that's been up and down for years, and we continue to gain market share in the glove area. Sorry for the long answer, but that's a bit more of our take of what's happening.

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

Yes. I appreciate it, Stan. And just if I could just ask one quick follow-up. I know it's early days, but anything you can talk about with just the current state of the engagement and review with the outside consulting firms. I think there's revenue and cost opportunities for sure. But can you give us a teaser at all as what's being emphasized or deemphasized? What are the savings opportunities that may have already been identified on top of the value creation projects that you already have underway?

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

You pointed out correctly. There's two opportunities. One is the restructuring that we went through. And as Ron and I think I mentioned as well, we're over \$100 million in that area. I think you'll see some more advantages in the third quarter, provide you hopefully with more data at that time on our restructuring. Now, the work we're doing with KKR, which started almost right after they told us they had invested in the business, involved dialogue with the Capstone group, very capable people I might add, who have directed us in two areas. These areas align with our BOLD+1.

The first is driving gross profit. Now, I don't want our customers to think. We're just driving up prices because that's not what it's about. It's about providing value for our customers and, of course, gross margin enhancements for Henry Schein, involving taking a look at our pricing, and particular seeing where there are options in areas such as own brands, or with particular manufacturers that understand the value of Henry Schein and are prepared to work with us so that we can provide our customers with a better deal and also help us enhance our margins. That's a project that is going on.

We started it in Europe already some months actually, I would say, about five, six months ago, had pretty good results and are now working with an international a very large consulting firm in doing this in the United States. All using the expertise of KKR's Capstone Group. And then we -- the restructuring that we went through with respect to corporate overhead within our groups, that project, we've done some good work in that area. But with the support of KKR's Capstone Group and the consulting firm that we work -- that we're working with, who've got great experience in working with complex companies, exactly the kind of organization we are in finding ways to develop global services versus perhaps services that we offer in each of our units.

There's a lot of opportunity here, and we're hopeful and actually expect some good results in 2026. We're not ready to give mathematical numbers yet, but we will, of course, but again, are very optimistic with our restructuring plan, taking us well over the \$100 million mark as well as these two key initiatives of gross margin enhancement and SG&A management. A lot of that is structural, a lot of AI possibilities that these firms have experience and bringing to us -- have experience that can bring to us. So we're quite optimistic in general about these two engagements. They've gone on now -- the dialogue has gone on with Capstone, really, as I said, since they announced last summer or last fall, their engagement with us, the equity investment and these firms are now working with us.

And our team is extremely enthusiastic about this. They know it's the right thing to do. And we've got the teams working on it. In fact, I mentioned bumping into our sales management team on the dental side that we have for that exact project for the gross margin management project last night. And all I can tell you is I think the value we create share will be very good for the company, and therefore, for our investors.

Operator

Elizabeth Anderson, Evercore.

Elizabeth Anderson - *Evercore Inc - Analyst*

Stan, congratulations. It's been a pleasure, and I wish you best in your retirement and your new role as Chairman. Maybe switching to the questions. And maybe this is part of the question for Ron too. If we think about where we are in the year, we're halfway done and sort of thinking about the traditional cadence in the back half of the year. I realize you said that there's \$25 million more of the BOLD+1. What initiatives plus obviously the \$35 million to \$100 million you talked about before. How do we think about sort of the EPS cadence in the back half of the year just vis-a-vis your guidance and sort of the year-to-date performance?

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

Elizabeth, thanks for the question. I think that we did mention when we talked about our guidance that even from the beginning of the year that we did expect to be more weighted to the back half of the year versus the first half of the year. So yes, we are expecting EPS to grow in the third quarter than I would say the fourth quarter to possibly exceed the third quarter as well. We're happy with the momentum we have coming into July, coming off the targeted sales initiatives we had. We've been able to expand our sales team on the distribution side. We think that's going to help us target some of these customers even better.

We are confident, in spite of some of the uncertainty, I'd say, macroeconomic uncertainty we saw in the second quarter that we think impacted equipment sales, we're comfortable given where we are with the backlog, that we'll begin to see some momentum with dental equipment in the second half of the year. Our Specialty Products and Technology groups, we think we can maintain the momentum we have there. The Tapered Pro Conical continued to get good sequential growth during the year, and we think that can continue into Q3, Q4. So that should contribute to growth -- sequential growth for us.

And you mentioned as well the restructuring plan. I think the restructuring plan has provided us with some cost savings. It will also -- as we get into some of these value creation projects, there will be perhaps opportunity to identify additional savings that working with the consultants, what could be some things that we haven't addressed fully.

And then lastly, we did mention within the guidance that it does include just as we have had in the last several years, remeasurement gains. And that could add a little bit to the lumpiness of this. Sometimes these remeasurement gains can be a little bit -- can be relative to the quarter, can be relatively large.

So we will -- to the extent we end up with the remeasurement gain in the third quarter versus the fourth quarter, that could impact that cadence. There obviously is something that we would alert investors to as part of our -- when we report the earnings in terms of what is the impact of those remeasurement gains in the back half of the year.

Elizabeth Anderson - *Evercore Inc - Analyst*

Got it. That's super helpful. And if we think about sort of the ortho turnaround that you guys have been in the process of implementing. Can you tell us sort of the most recent update on sort of where we are with the integration of the different clear aligner brands and how you would sort of define the orthodontic environment more broadly? Obviously, I think you called out a little bit of weakness in the quarter, but just kind of trying to triangulate whether sort of that was macro or whether that's a result of your transition, and that's something that could also happen with the -- help of the second half gains?

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

Elizabeth, first of all, thank you for your nice comment at the beginning of your question. Second, on orthodontics, it is very small. It's under \$100 million business. There are two aspects. There's traditional a particular product offering there that is of interest to customers, but it's very, very small. It had generic competition a year ago, plus for the past two, three years, starting about a year -- yes, about two, three years ago, it started

and we've now in the last six months of the year, we've stabilized that with an upgraded product. So the traditional part is doing well. We -- it's doing better, it is doing well, put it this way, on a reduced sales base.

We reduced our sales organization, our cost, our marketing, and it's really now moving into a positive environment in the traditional area. Its gain not significant. On the aligner side, we've moved the aligners to -- from a production point of view to the facility, one facility in France. That's working quite well. Again, it's very, very small. We've reduced our sales and marketing expenses, and it's not a significant area for Henry Schein other than with some DSOs who we've made arrangements with, who try to buy most of their products from Henry Schein.

I would not say that we are indicative of the growth of the market or the challenges of the market. We have our internal areas we're working on. And the goal there is to offer very good products on the traditional side, unique niche products, increase the margin and on the aligners have an offering that is unique, that is integrated with some software we have.

And I would say this is not, for the moment, a big strategic area for Henry Schein, but there are some profits there, and we're turning around the business and making it more profitable. But again, it's very small, \$100 million or so out of almost \$13 billion of sales. So it's not material. But we'll give you updates as they materialize.

Operator

Allen Lutz, Bank of America.

Allen Lutz - BofA Merrill Lynch Asset Holdings Inc - Analyst

Stan, you mentioned July sales were good and you've returned to normal merchandise pricing. I guess a question for Ron here. How should we think about the gross margins in the distribution business in the second half of the year, if you've returned to normal merchandise pricing, can they go back to where they were a year ago? And then related to that, around Capstone. Should we view the gross margin initiatives as accretive to last year's gross margins as a starting point?

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

Allen, on the -- in terms of gross margins, the distribution side, there is some very competitive areas. And we said that we did see some especially some pressure in glove pricing. I think on the glove pricing side, it has stabilized. I think sequentially, we can stabilize those margins. I think versus last year, you're still going to see some slightly lower gross margins. That's just really the reality of where the market is, especially for when you have a product category as important as gloves that is seeing relatively competitive pricing out there. But we are seeing some stabilization in the glove pricing as we get into the third quarter.

I think overall, as we look at margins, we're so happy with the growth we're seeing in technology, which given the margins in technology, gives us an overall lift in gross margins as well as the growth we're seeing in the Specialty Products.

Within Specialty, we did see a little bit of a tick down in gross margin because we saw better growth in, for example, in value implants than we did in Specialty. Value implants typically get a slightly lower gross margin than -- I'm sorry, not Specialty but premium. And so the value implant is taking a little bigger piece of the pie, brought down that segment's gross margin a little. But nevertheless, that's obviously accretive to our overall gross margin.

So product mix will give us some benefit as we go forward, but certain product categories, such as gloves, will continue to put a little bit of pressure on gross margins and distribution, but I think that we're seeing some stabilization sequentially there.

Allen Lutz - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Great. And then one for Stan. Last quarter, you talked about an increase in de novo builds. DSOs, you mentioned were well financed, and they're expanding. Would love to get your updated thoughts on what you're seeing now. Is that still the case? Has that improved further? Any updated thoughts there would be helpful.

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

Yes. I think we're pretty consistent with the message of last quarter. The DSOs in general are moving in a positive direction. I think they're getting funding, if they trade, I'm not sure they're trading at as high a multiple as maybe a couple of years ago. But generally, the ones that are in the business have funding and are investing sometime even investing in traditional equipment, but dental technology is the digital side is where I would say there's quite a bit of movement, and they're all investing one way or another in software. So I think it's pretty -- it's stable to maybe -- I mean, I'm thinking now, maybe leaning even positive.

There are a couple of places in the world where there's a challenge. France, to pass some laws that are a challenge. But I would say even internationally, they are growing, they can get funding and they're investing. Didn't have any big sales this quarter, but generally, every couple of quarters, there's a big sale to a DSO and that's continuing, so here and abroad. I would say it's positive and funding is available.

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

I just want to add on to what Stanley said there, Allen. I think that when we look in the US, when we look at new office design projects. Every month this year with the exception of one month, we have seen a double-digit growth year-over-year in a kind of announced new office design projects. The one month that we didn't see that was in May. We actually had double-digit negative growth that month, which was an indication of the -- bit of the hesitation of that uncertainty out there that was it driven by tariffs or whatever it might have been. But every other month, we have seen double-digit growth year-over-year.

Operator

John Stansel, JPMorgan Chase.

John Stansel - JPMorgan Chase & Co - Analyst

Can you just size potentially the -- that targeted sales impact on the second quarter? And then just as we think back to the first quarter call, what changed that led you to want to kind of pursue this targeted sales initiative and produce kind of the positive impacts that you're seeing now in July?

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

Thank you. I will address the second and Ron, can potentially provide some thoughts on sales. I don't know what exactly we're providing to investors. It's not that we want to hide, but obviously, for competitive reasons, we need to be careful. We saw an opportunity with a group of customers, in particular, who had been buying from Henry Schein, returned to buy maybe exclusive products, perhaps were cherry picking with us and used to buy in a more steady way, higher numbers.

And we felt it was just an opportunity, a hole in the bucket, if you will. Sales we lost over the last 18 months. And to go to those customers with an equivalent of a frequent flyer program and affinity program that I think has been well received. And I don't think there's a need for this any longer, maybe -- you mean in such -- I mean such an aggressive way.

But I think this high-octane opportunity was just the hole that we felt we could go through and it has been relatively successful. I think this is not a general offering to all of our customers but it's an offering, particularly to customers that we felt had left us, didn't understand us, didn't understand the value-added services, gave our field sales representatives a reason to go into the office and gave our telesales representatives, an opportunity to call and talk about in an outbound way about the values that Henry Schein brings. I think -- and all the value-added services we offer. So I think it was a great opportunity and I think the team went through that hole in the bucket unfold it, so thank you.

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

And John, regarding the first half of your question, the -- we mentioned two things to kind of put pressure on those margins, right? One was lower glove pricing and the other was those targeted initiatives. As you can appreciate, there's a bit of an overlap there. Some of those targeted initiatives were on gloves because it's a very important product category. So it's difficult to really assess dollars and provide dollars to each of those individual items.

I think what's important out of all that is that we're pleased with the results we're seeing in July coming out of those targeted initiatives and pleased also that we're seeing some stabilization in glove pricing. And so we consider it to be kind of a successful campaign and that gives us some confidence as we go into the back half of the year.

John Stansel - *JPMorgan Chase & Co - Analyst*

Great. And then there's been some discussion around one of your larger customers, RFP being a portion of their business. Can you just comment generally on what you're seeing in the competitive balance as customers potentially RFP, especially on the DSO side?

And maybe Stanley, if you would indulge us in a bit of a retrospective about how these have changed? What customers are looking for have changed over time? That would be helpful.

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

Yes. Okay, another good question there. We don't typically comment on contracts with specific customers. But I think it's normal for some of our larger customers to issue RFPs every three, four years or so. To some extent, we want to see what our margin is. But to some extent, there's a negotiation with manufacturers because in the dental space, we actually perform the GPO function. We work on behalf of our customers in obtaining pricing specifically related to them. And then we have put our mark up on top of that.

So I think this kind of activity is quite normal. It's not been actually as aggressive as we would have expected. And that is, to some extent, because we've worked well with our larger customers and finding alternative options to product sourcing where there is a significant tariff, moving to other markets, moving to domestic products, moving to manufacturers that can absorb part of the tariff. So I think, generally, we remain a very trusted supplier and are partnering with our customers quite well.

So as it relates to trends, I think we continue to gain market share with our larger bigger mid-sized customers because of the comprehensive offering, including our supply chain capabilities, I think it happens to be the best in the market. I'm sure our competitors will say theirs is the best. We do our work to ensure that from a service point of view, we provide our customers with the best service, best in class. But it's also owned-brand product offering, a private brand that is there and all the value-added services that we provide.

Generally, these larger customers are not only getting their consumables from us. but they're also getting their equipment and the service. I think our national service capability is outstanding, not only in the United States but globally, and it's best to practice. I'm sure our competitors will say theirs is best practice, too. But I think we provide exceptional national coverage here and in many other countries. So that is being recognized, and then there's the software opportunities and the various revenue cycle management opportunities where we can often save the customer more money or bring them more profits than perhaps a penny here or there on a glove box.

So generally, I think the market is relatively stable from a large customer -- large and midsized customers' point of view, and everybody is working to understand the tariffs, they're working together and finding ways to mitigate these tariffs. I think it's a collaborative effort with our customers in general.

Operator

Jeff Johnson, Baird.

Jeff Johnson - *Robert W. Baird & Co Inc - Analyst*

Stanley, I think I met you in 2002 at our Growth Stock Conference in Chicago. We were both a lot younger then but I've appreciated your steady hand and your consistent leadership over the years. So thank you and good luck in the future.

I was hoping I could start maybe, Ron, a question for you on gross margin. Just as you said, glove prices have stabilized, which sounds encouraging but maybe going to be sequentially stable at these levels. How much of the 110 basis points of gross margin pressure this quarter in 2Q was maybe glove-related with promotional activity that sounds like it's gone away now and maybe core pressures elsewhere? It would be helpful to just try to model out the back half of this year by knowing gloves versus maybe those other two categories of gross margin pressure?

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

Yes. It's like I was saying, Jeff, it's hard to kind of isolate the programs when gloves are part of the programs. I think it's easier to look at it for us, when we see the product categories, right? The product category for gloves probably attributed to about a third of the margin pressure year-over-year, right, just gloves alone.

And then the balance comes from just other competitive pricing and other competitive promotions that we've been doing. Like I said, we feel comfortable that in the back half of the year, this will stabilize, both with gloves as well as some other areas since these were a rather focused and targeted initiative. Both from the perspective of the amount of time that we were doing it as well as the nature of the customer that we were primarily targeting. So as we come out of that and as we go into the third quarter, we feel like it's given us the appropriate momentum.

Jeff Johnson - *Robert W. Baird & Co Inc - Analyst*

All right. That's helpful. And then just my final question. Just you talked about the two new initiatives. It sounds like we'll get more detail next quarter on those two initiatives in conjunction with KKR Capstone.

I guess my question there is there's been a lot of debate out there with investors on whether these initiatives might bring chunkier cost savings, some big cost savings initially in the first year or two, call it, 2026, 2027, where earnings could jump up and then kind of stay on a steady glide path or do you think at this point with what you're communicating these efforts with KKR potentially just -- not just, but to get you into that kind of LRP getting back to just a more consistent over the next few years of the upper single to low double digits? Should we be looking for chunkier savings upfront or just kind of getting back to that consistent upper single to low double-digit path over the next several years?

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

Thank you, Jeff. And yes, it's been a quick 23 years. Of course, I wish you and all the other analysts that cover us all the best, and I hope that the analysts stick with the dental market. It's a great market, may be going through ups and downs, but I can tell you, I've been at this as a public company for 30 years. There are always ups and downs. And overall, generally, the dental market is a good market. It provides great cash flow all around. And yes, there are ups and downs periodically in sectors.

As it relates to the work of Capstone, yes, there will be efficiencies over time, some short term and the restructuring plan, some in '26 that will impact in '26 and '27. But that's really one element. The other element, of course, is our BOLD+1 Strategic Plan and our BOLD+1 Strategic Plan when we announced it, we have just over 30% of our operating income coming from the high-growth high-margin businesses. This quarter was 45%. You add to that about 10% that is coming from our own brands, which we call it, some would call it our private label. And we're well over 50%, 55% of our earnings coming from our high-growth, high-margin businesses.

I think -- two things are going to happen. This is -- I'm not guaranteeing it, of course. There will be a new CEO to carry through on a lot of that. You'll see two things. One is our cost of doing business is going to go down, largely as a result of increased efficiencies, particularly as it relates to computer type systems, AI. There's a lot of opportunity. We're learning about that. So there's an opportunity to be more efficient to provide better customer service. I think that will -- there will be some of that in '26, some of that in '27. We'll be able to globalize certain functions that are may be in the business units today, as I mentioned earlier on, and generally drive operational efficiency.

But that will be complemented with a high-growth, high-margin business growth. It's been a very good trajectory. It's been a strategy that I think we've executed on quite well. And don't forget the L, the leveraging of relationships amongst our various portfolio companies to get business for each of the units. We -- with customers know one part of the business, but not another, introducing it to the other part. That's the L. So we've got the B, building high-growth, high-margin business. The operationalizing a lot of that's going to come from optimizing, operationalizing coming from the Capstone and related consulting group work. We've got the L, leveraging and the D, we are significant players today in digitalization of dentistry.

That's the big opportunity for dentists, maybe their sales growth in some countries, their revenue, their collections may not be as great, but they have opportunity to drive efficiency in their practice while providing better clinical care. And I think that we do very well.

So with that in mind, let me conclude the call. Thank you all for calling in. I remain very optimistic about the future of Henry Schein. We're on the way. We've retained a national recruiting firm to work on the appointment of the next CEO. We're looking at internal candidates, external candidates. We thought it's better to announce my retirement early in the process rather than rumor spreading. And I think as a public company, we have to look at internal and external candidates as best practices. So that's underway.

The team is enthusiastic, the senior team and management generally on the Capstone value creation initiatives. The morale from that point of view is quite good. People understand there's opportunities. People understand the competitive nature of the market from a pricing point of view, but also from a customer experience point of view. I think we've got that combination on the table right now and are working towards improving the value that we provide to our customers, which in turn will provide value creation opportunities for the company in general.

I believe that the senior team has never been in a better shape. Each one of our areas, whether it's our business units or our infrastructure units has very good leadership. I'd say outstanding leadership working together. It's a good time for me to hand over the reins to someone else because the team is really in place. The momentum in the company is good. I think the BOLD+1 plan, which I outlined is good. I believe our directors, including the KKR directors, [the two appointees they have], is they have, enthusiastic about the plan. I think they like the BOLD+1 plan the directors, including, as I said, the KKR directors are very supportive.

And yes, there are economic challenges every day. There's a new announcement, one way or the other on tariffs. That destabilizes us from time to time, our customers, but we're moving forward, and I think are very optimistic. The entire team is optimistic of where the company is heading. So thank you again, everyone, for calling in. And we'll be back in three months' time. Thank you.

Operator

This concludes today's teleconference. You may disconnect your lines at this time, and we thank you for your participation.

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