

Henry Schein, Inc. (HSIC)

\$66.20 (As of 01/09/20)

Price Target (6-12 Months): **\$70.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/23/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: A

Summary

Over the past six months, Henry Schein has outperformed the industry. The company witnessed solid performance by each of its key operating businesses. Henry Schein's strong share gains in the North American market buoys optimism. The company's stellar international performance is also impressive. We are upbeat about the company registering solid organic revenue growth in its Medical sales business from the North American Rescue acquisition, during the third quarter. The company continued gaining from its Henry Schein One business through the quarter. Overall, year-over-year its revenue growth is encouraging. Henry Schein put up a mixed performance in the third quarter of 2019. On the flip side, we are disappointed with the contraction in gross margin and rising selling, general and administrative (SG&A) expenses.

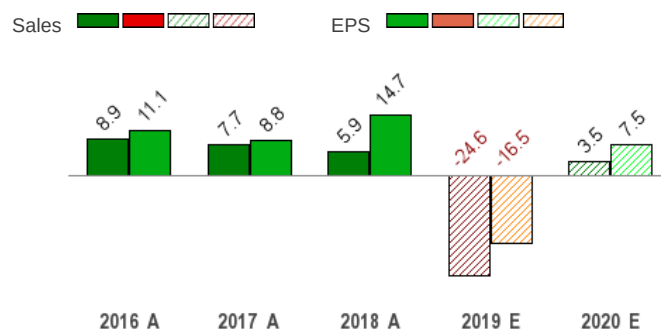
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$72.81 - \$56.58
20 Day Average Volume (sh)	1,124,993
Market Cap	\$9.7 B
YTD Price Change	-0.8%
Beta	0.83
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Dental Supplies
Zacks Industry Rank	Top 37% (93 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.7%
Last Sales Surprise	-0.5%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	02/19/2020
Earnings ESP	0.0%
P/E TTM	18.1
P/E F1	17.8
PEG F1	2.2
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,480 E	2,528 E	2,585 E	2,709 E	10,301 E
2019	2,360 A	2,448 A	2,509 A	2,641 E	9,955 E
2018	3,220 A	3,327 A	3,280 A	3,375 A	13,202 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.87 E	\$0.89 E	\$0.95 E	\$1.00 E	\$3.71 E
2019	\$0.80 A	\$0.84 A	\$0.90 A	\$0.91 E	\$3.45 E
2018	\$0.95 A	\$1.04 A	\$1.03 A	\$1.12 A	\$4.13 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/09/2020. The reports text is as of 01/10/2020.

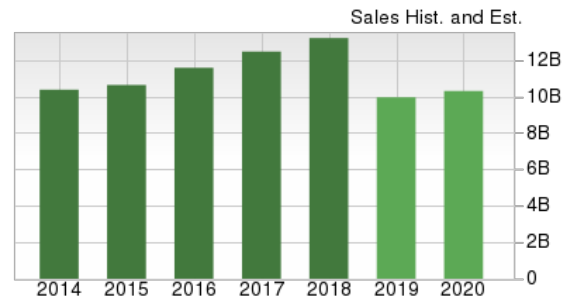
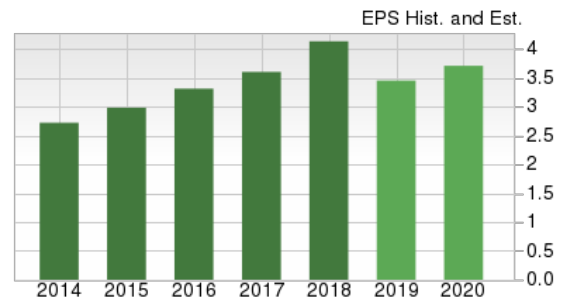
Overview

Headquartered in Melville, NY, Henry Schein Inc. is a leading distributor of health care products and services across the globe. The company serves office-based dental, medical and animal health practitioners, dental laboratories, government as well as institutional health care clinics and other alternate-care sites. Presently, Henry Schein operates in 33 countries.

At the end of 2015, the company served a vast distribution network worldwide with a selection of over 110,000 branded products. Additionally, Henry Schein offers other value-added services such as practice management software, e-commerce solutions and an array of financial services.

Henry Schein has completed the spinoff of its global Animal Health business in February 2019.

Henry Schein's 3 businesses – **Dental** (comprising 49.4% of total revenue in 2018; up 5% from fiscal 2017), **Medical** (20.3%; up 6.5%) and **Technology and Value-Added Services** (4.1%; up 16.2%) serve millions of customers worldwide.



Reasons To Buy:

▲ **Share Price Performance:** Over the past six months, Henry Schein has outperformed the industry. The stock has declined 4.7%, narrower than the 12.3% fall of the broader industry. The company saw solid performances across each of its operating segments during the third quarter. Henry Schein's robust performance gains in the North American market also buoys optimism. The company's solid international performance during the quarter is also impressive. During the quarter, the company registered solid organic growth in its Medical sales business from the North American Rescue acquisition. Over the past few quarters, the company has been registering strong top-line results on Henry Schein One's (the company's joint venture with Internet Brands) strong execution of innovation and new product launch strategy. The promising 2019 guidance is indicative of the maintenance of this solid momentum. Meanwhile, Henry Schein divested its Animal Health business in February to form a new publicly traded company, Covetrus. Management seems to be upbeat about this spin-off which should enable the company to focus more and gain market share in Global Dental and medical business.

Henry Schein is well positioned to gain from its extensive global foothold and diverse channel mix. Favorable market dynamics is a major growth catalyst going forward.

▲ **Widespread Network and Channel Mix:** Henry Schein's distribution business boasts a wide global footprint with 61 distribution centers. Henry Schein Medical's exclusive distribution and supply deal with MindChild Medical, earlier in 2019, looks promising. Per the deal, it is supposed to distribute the MindChild Medical's MERIDIAN M110 Fetal Monitoring System to its obstetricians and pediatric cardiologist customers in the United States. Henry Schein's major distributing deals of 2018 are with Sprig Oral Health Technologies. and Welch Allyn, a Hill-Rom company.

Apart from North America and Europe, the company has presence in Australia and New Zealand as well as in emerging nations like China, Brazil, Israel, Czech Republic and Poland. We believe Henry Schein's worldwide reach is a major competitive advantage over other players in the healthcare distribution industry.

Henry Schein registered strong momentum in international consumable merchandise sales, driven by dental specialty growth across Europe and other international markets.

▲ **Market Dynamics:** Henry Schein stands to gain from several favorable trends in the end markets. One of the major positives is demographics. The increasing number of lives covered, following the healthcare reforms in the United States, is likely to benefit Henry Schein. We believe that an aging population and increasing healthcare expenditure across the globe will aid in providing additional top-line opportunities. Further, the company's medical segment continues to grow as it gains traction in large group practices including those within health systems.

Moreover, in the dental industry, a rise in oral health care expenditures is predicted as population ageing 45 years and above segment of the population increases. Moreover, Henry Schein is upbeat about the expected increase in dental insurance coverage along with lower insurance reimbursement rates leading to a rising need for new technologies. We believe this will boost demand for Henry Schein's products and services as well.

▲ **Favorable Dental Business Trends:** Henry Schein's strategy to expand digital dentistry globally is encouraging. Henry Schein is busy promoting digital workflows for general dentistry as well as dental specialties. The company is currently focusing on offering a diversified portfolio and value-added services along with favorable end market.

Henry Schein's recent joint venture (JV), Henry Schein One is working on combining a host of unique and powerful dental software tools that help dentists build awareness for their practice and better communicates with existing patients as well as generating new patients. These tools include growth areas like advanced websites, reputation management tools, improved search engine results, online marketing and automated digital communications.

A few recent achievements by the company in this line are, all major imaging vendors have now signed on with Henry Schein's Dentrux Smart image integration solution. This apart, Henry Schein's cloud-based dental practice management system Dentrux Ascend continues to enhance its focus on practice and patient experience with the addition of multiple new enhancements, including more efficient insurance processing, scheduling, pin board, document management, enhanced electronic dental billing functionality, and additional electronic claim codes to help improve business outcomes.

Henry Schein has recently entered into an agreement to buy Lighthouse 360 from the Web.com which will enable the company to provide easy-to-use dental practice management and patient communication software.

▲ **Henry Schein One Holds Potential:** Henry Schein seems to be upbeat about its dental technology business, Henry Schein One. Henry Schein One was formed as a result of the company's JV with Internet Brands last July. The JV combines Henry Schein Practice Solutions' products and services with the dental businesses of Internet Brands. The company has been expanding market share with its Henry Schein One business, not only in the United States and Canada, but also globally.

In the third quarter, the company delivered several new functional enhancements to its Henry Schein One platform. It introduced electronic forms of consents as well as new practice workflow tools. In patient engagement and patient acquisitions, the company launched a click-in solution as well as a powerful new full appointment tool to help dentists manage their practices and maintaining schedules more efficiently. The company also offers online appointment booking through Dentrux Ascend.

Earlier in February 2019, Henry Schein One acquired dental practice management solutions company, Kopfwerk. The company also announced integration of CareCredit's financing tool into its dental practice management software solutions in December 2018. CareCredit integrates into practice management software solutions like Dentrux and Easy Dental, provided to dental professionals by Henry Schein One.

▲ **Expansion Through Acquisitions:** Henry Schein's revenue growth has been consistently supported by niche acquisitions. Its robust

acquisition strategy helps it to pursue targets that provide access to additional product lines.

In October 2019, the company sold its minority equity interest in Hu-Friedy, a manufacturer of dental instruments and infection prevention solutions. Hu-Friedy has been one of their key distribution partners, as it has helped Henry Schein gain share in the international markets.

In August 2019, the company announced the acquisition of Cliniclands which offers dental consumables, implants, prosthetic, and orthodontic solutions and equipment to dentists in Sweden, Denmark, and Norway. In July 2019, the company announced its foray into the Italian dental practice management software market with the small but crucial acquisition of Elite Computer Italia. In June 2019, the company acquired the Hayes Handpiece franchise, a leading provider of dental handpiece products and services in the United States, Canada, and the United Kingdom.

All these should strengthen the company's international presence in the dental implant space.

▲ **Attractive Returns to Shareholders:** The company exited third-quarter 2019 with cash and cash equivalents of \$75.3 million compared with the \$84.9 million reported at the end of the second quarter. Year-to-date net cash provided by operating activities from continuing operations was \$525.2 million compared with the year-ago period's \$269.4 million.

Reasons To Sell:

▼ **Impact of Group Purchasing Organizations:** The healthcare industry has been facing numerous headwinds such as measures to curb capital expenditure, volume headwind, pricing pressure and procedure deferrals among others. In light of these facts, some large integrated health care providers and group purchasing organizations (GPO) have gained considerable purchasing power. The GPOs act as agents that negotiate vendor contracts on behalf of their members. Moreover, the ongoing economic climate bolstered the bargaining power of GPOs. The GPOs have also increased pricing pressure in the industry. This might be a drag on Henry Schein's business in the future.

▼ **Contagion of Economic Problems:** The current macroeconomic environment across the globe has adversely affected Henry Schein's financial operations. Governments and insurance companies continue to look for ways to contain the rising cost of healthcare. This might put pressure on players in the healthcare industry with Henry Schein being no exception. Moreover, fluctuating currency rates also hamper growth of a multinational like Henry Schein, given that it derives a substantial amount of its revenues from international markets. The company's sales are thus directly affected by unfavorable macroeconomic conditions. During the fourth quarter, unfavorable foreign currency exchange resulted in a 1.6% decline in overall revenues. We are concerned that such macroeconomic softness might hamper Henry Schein's growth.

▼ **Tough Competition:** The U.S. healthcare products and service distribution industry are highly competitive and consist principally of national, regional and local distributors. In the North American dental products market, the company faces stiff competition from Patterson Dental business of Patterson Companies Inc. and Benco Dental Supply. The competition in the fast-growing animal health market is also fierce with Patterson Veterinary Supply under Patterson Companies and IDEXX Laboratories gaining traction. Henry Schein operates in a highly competitive medical product distribution market with larger players like McKesson Corp. Moreover, the presence of specialized players like Quality Systems, eClinicalWorks and athenahealth in the electronic medical records market puts Henry Schein in a tight spot. Moreover, competitive landscape in overseas market is also tough. The tussle for market share might be a drag on results.

The year-over-year deterioration in Henry Schein's gross and operating margin was due to higher cost of sales and expenses. Also, tough competitive landscape and pricing pressure weigh on the stock.

Last Earnings Report

Henry Schein Q3 Earnings Top Estimates

Henry Schein, Inc. reported adjusted earnings per share from continuing operations of 90 cents in the third quarter of 2019, up 15.4% year over year. Adjusted earnings per share beat the Zacks Consensus Estimate by 4.7% on revenue growth across each of its operating segments.

On a GAAP basis, earnings per share from continuing operations was 91 cents, showing a 54.2% improvement on a year-over-year basis.

Quarter Ending **09/2019**

Report Date	Nov 05, 2019
Sales Surprise	-0.51%
EPS Surprise	4.65%
Quarterly EPS	0.90
Annual EPS (TTM)	3.66

Revenues in Detail

Henry Schein reported net sales of \$2.51 billion in the third quarter, up 6.4% year over year. The metric missed the Zacks Consensus Estimate by 0.4%. The year-over-year improvement came on the back of 3.9% internal sales growth in local currencies along with acquisition growth of 3.7%. Unfavorable foreign currency exchange made a 1.1% impact on the top line.

Excluding \$21.7 million in corporate revenues from product sales to Covetrus under the transition services agreement related to Henry Schein's Animal Health spin-off, normalized internal sales growth in local currencies was 3%.

In the quarter under review, the company recorded sales of \$1.86 billion in the North American market, up 5.7% year over year. Sales totaled \$651.4 million in the international market, up 9%.

Segment Analysis

Henry Schein derives revenues from four operating segments: Dental, Medical and Technology and Value-added Services.

In the third quarter, the company derived \$1.55 billion of global Dental sales, up 2.1% year over year. This includes 3.6% growth in local currencies and 1.5% adverse impact from foreign currency exchange. At local currencies, internally-generated sales increased 1.7% and acquisition growth was 1.9%.

Worldwide Medical revenues climbed 11.3% year over year to \$803.7 million. Growth in local currencies was 11.4%, while there was a 0.1% decline owing to adverse foreign exchange.

Revenues from global Technology and Value-added Services grew 15.1% to \$137.3 million. This included 15.8% growth in local currencies and 0.7% drop owing to adverse currency translation.

Margin Trend

Gross profit increased 5.4% to \$761.2 million in the reported quarter. Gross margin, however, contracted 33 basis points (bps) from the year-ago quarter to 30.3%. Adjusted operating income improved 9.4% year over year to \$186.4 million. Adjusted operating margin expanded 20 bps to 7.4%.

Financial Position

The company exited third-quarter 2019 with cash and cash equivalents of \$75.3 million compared with \$84.9 million at the end of the second quarter. Year-to-date net cash provided by operating activities from continuing operations was \$525.2 million compared with \$269.4 million in the year-ago period.

During the quarter under review, Henry Schein repurchased 1.6 million shares of its common stock for approximately \$98 million. At the end of the third quarter, the company had \$75 million authorized for repurchase of common stock.

Guidance

The company tightened its earnings per share guidance for 2019. It expects adjusted earnings per share in the range of \$3.41 to \$3.47 (compared to earlier-provided range of \$3.38-\$3.50), reflecting 8-9% growth from 2018. The Zacks Consensus Estimate for 2019 adjusted earnings per share of \$3.46 is within the guided range.

The company has also initiated its 2020 adjusted earnings per share guidance. It expects adjusted earnings per share from continuing operations within \$3.65 to \$3.75, reflecting growth of 6% to 9%. The Zacks Consensus Estimate for 2020 adjusted earnings per share of \$3.75 is at the high end of the guided range.

Recent News

On **Dec 4, 2019**, Henry Schein announced signing a Memorandum of Understanding (MOU) with the National Council on Disability (NCD) to seek improved access to care for Americans with disabilities in line with the Americans with Disabilities Act (ADA).

On **Dec 1, 2019**, Henry Schein announced partnering with Ivoclar Vivadent AG to plan for distribution of the new PrograMill One Milling System in areas where the companies are already collaborating.

On **Nov 26, 2019**, Henry Schein announced the availability of the Dentrrix Smart Image connector for DEXIS. The integration will enable oral health professionals to further automate their practice management with DEXIS software tightly woven into Dentrrix workflows.

Valuation

Henry Schein shares are down 4.7% in the six months period and down 17% in the trailing 12-month periods. Stocks in the Zacks sub-industry are down 12.3% while the Zacks Medical sector rose 4.9% in the six months period. Over the past year, the Zacks sub-industry is up 2.1% and sector is up 4.4%.

The S&P 500 index is up 9% in the six months period and increased 24.4% in the past year.

The stock is currently trading at 17.8X Forward 12-months earnings, which compares to 17.7X for the Zacks sub-industry, 21.5X for the Zacks sector and 18.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26X and as low as 13.5X, with a 5-year median 21.3X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$70 price target reflects 18.8x forward 12-months earnings.

The table below shows summary valuation data for HSIC

Valuation Multiples - HSIC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.82	17.67	21.49	18.82
	5-Year High	26.03	19.99	21.49	19.34
	5-Year Low	13.49	13.70	15.91	15.17
	5-Year Median	21.25	16.67	18.98	17.44
P/S F12M	Current	0.94	0.36	2.82	3.49
	5-Year High	1.26	0.36	3.80	3.49
	5-Year Low	0.64	0.23	2.42	2.54
	5-Year Median	1.03	0.28	2.93	3.00
P/B TTM	Current	2.81	4.51	4.50	4.44
	5-Year High	5.32	4.93	5.01	4.45
	5-Year Low	2.47	2.53	3.42	2.85
	5-Year Median	4.21	3.46	4.27	3.61

As of 01/09/2020

Industry Analysis Zacks Industry Rank: Top 37% (93 out of 254)



Top Peers

AmerisourceBergen Corporation (ABC)	Neutral
Align Technology, Inc. (ALGN)	Neutral
Covetrus, Inc. (CVET)	Neutral
Danaher Corporation (DHR)	Neutral
IDEXX Laboratories, Inc. (IDXX)	Neutral
McKesson Corporation (MCK)	Neutral
Patterson Companies, Inc. (PDCO)	Neutral
DENTSPLY SIRONA Inc. (XRAY)	Neutral

Industry Comparison Industry: Medical - Dental Supplies				Industry Peers		
	HSIC Neutral	X Industry	S&P 500	DHR Neutral	IDXX Neutral	PDCO Neutral
VGM Score	A	-	-	F	C	A
Market Cap	9.71 B	1.45 B	23.94 B	113.25 B	23.84 B	2.07 B
# of Analysts	9	6	13	9	4	8
Dividend Yield	0.00%	0.00%	1.78%	0.43%	0.00%	4.80%
Value Score	A	-	-	D	D	A
Cash/Price	0.01	0.06	0.04	0.13	0.00	0.07
EV/EBITDA	10.89	11.31	13.97	24.62	42.56	11.64
PEG Ratio	2.16	2.05	2.03	2.46	NA	2.40
Price/Book (P/B)	2.81	3.76	3.33	3.58	117.61	1.42
Price/Cash Flow (P/CF)	11.97	11.97	13.73	24.49	52.08	9.65
P/E (F1)	17.87	21.77	18.79	28.60	51.30	15.26
Price/Sales (P/S)	0.91	1.49	2.64	5.54	10.14	0.37
Earnings Yield	5.60%	4.06%	5.32%	3.49%	1.95%	6.55%
Debt/Equity	0.30	0.32	0.72	0.52	3.76	0.49
Cash Flow (\$/share)	5.53	1.80	6.94	6.44	5.34	2.24
Growth Score	B	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	8.77%	8.77%	10.56%	2.97%	22.83%	-12.79%
Proj. EPS Growth (F1/F0)	7.41%	13.35%	7.49%	16.10%	13.81%	1.43%
Curr. Cash Flow Growth	10.44%	9.29%	14.83%	10.54%	21.97%	-11.19%
Hist. Cash Flow Growth (3-5 yrs)	8.23%	12.65%	9.00%	6.62%	13.68%	-3.58%
Current Ratio	1.63	1.72	1.23	3.43	1.12	1.59
Debt/Capital	27.89%	26.85%	42.99%	33.25%	79.01%	32.97%
Net Margin	4.66%	3.65%	11.08%	12.13%	17.99%	1.01%
Return on Equity	15.93%	15.73%	17.16%	11.42%	405.71%	8.97%
Sales/Assets	1.43	1.02	0.55	0.38	1.40	1.67
Proj. Sales Growth (F1/F0)	3.48%	5.42%	4.20%	14.48%	9.79%	0.83%
Momentum Score	A	-	-	F	C	D
Daily Price Chg	-2.55%	0.00%	0.53%	0.88%	2.30%	-0.37%
1 Week Price Chg	-0.03%	0.00%	-0.30%	0.83%	0.30%	0.74%
4 Week Price Chg	-3.81%	0.73%	1.92%	4.21%	10.35%	-1.41%
12 Week Price Chg	4.17%	4.41%	6.54%	14.44%	-1.49%	23.97%
52 Week Price Chg	-16.71%	5.69%	22.58%	49.65%	44.22%	0.28%
20 Day Average Volume	1,124,993	234,749	1,580,816	15,525,323	419,558	1,142,215
(F1) EPS Est 1 week change	-0.06%	0.00%	0.00%	-0.58%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.06%	0.00%	0.00%	-0.97%	0.00%	0.00%
(F1) EPS Est 12 week change	-1.13%	-0.22%	-0.50%	-3.30%	-2.74%	3.18%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	B
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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