

Henry Schein, Inc. (HSIC)

\$67.54 (As of 02/21/20)

Price Target (6-12 Months): **\$71.00**

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

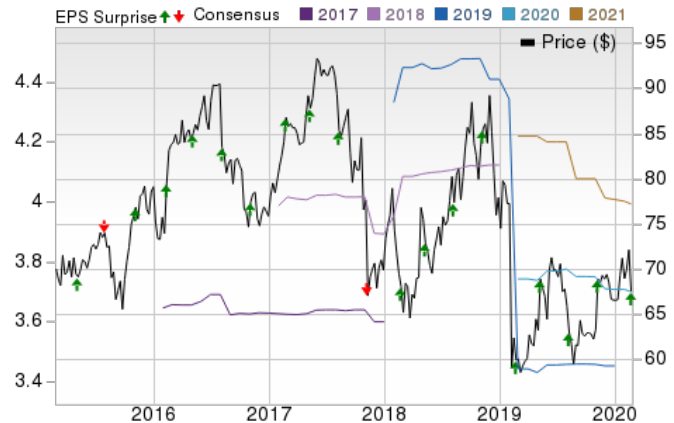
Growth: B

Momentum: A

Summary

Henry Schein reported better-than-expected results for the fourth quarter. The company's key operating businesses put up a solid performance. Its strong share gain in the North American market raises optimism. Robust international performance also instills optimism. The company's overall year-over-year revenue growth is encouraging as well. We are upbeat about the solid organic revenue growth in its Medical sales business from the North American Rescue acquisition during the fourth quarter. The company continued gaining from its Henry Schein One business through the quarter. The promising 2020 EPS guidance is indicative that the growth trend will continue through next year. Over the past six months, Henry Schein has outperformed its industry. Nonetheless, we are disappointed with the contraction in its operating margin.

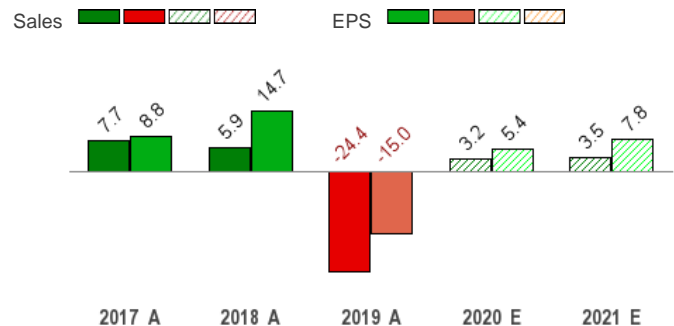
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$73.99 - \$56.58
20 Day Average Volume (sh)	1,093,988
Market Cap	\$9.9 B
YTD Price Change	1.2%
Beta	0.85
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Dental Supplies
Zacks Industry Rank	Top 30% (77 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.6%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	NA
Earnings ESP	2.0%
P/E TTM	19.2
P/E F1	18.3
PEG F1	2.2
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,570 E	2,610 E	2,682 E	2,819 E	10,659 E
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	2,669 A	9,986 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.98 E	\$0.97 E	\$1.02 E	\$1.08 E	\$3.99 E
2020	\$0.87 E	\$0.89 E	\$0.95 E	\$0.99 E	\$3.70 E
2019	\$0.80 A	\$0.84 A	\$0.90 A	\$0.97 A	\$3.51 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 02/21/2020. The reports text is as of 02/24/2020.

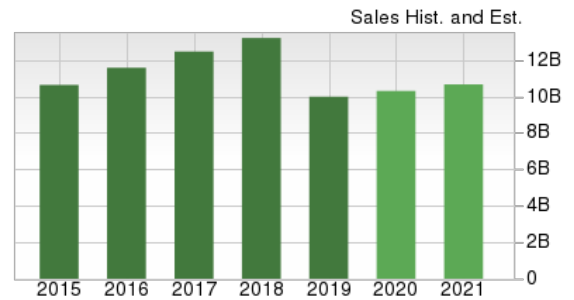
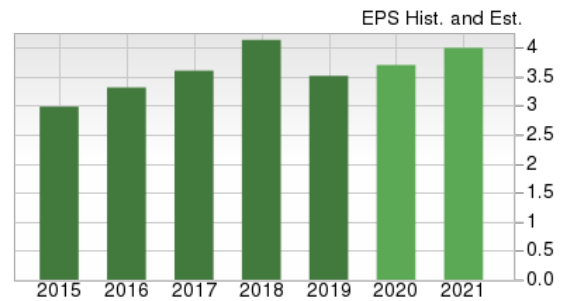
Overview

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 64.2% of total revenue in 2019; up 1.1% from fiscal 2018), **Medical** (29.8%; up 11.7%) and **Technology and Value-Added Services** (5.1%; up 26.1%) 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 climbed 11.3%, against the industry's 2.1% fall of the broader industry. The company saw solid performances across each of its operating segments during the fourth quarter. Henry Schein's robust performance gains in the North American market also buoy optimism. The company's solid international performance during the quarter is impressive as well. 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 product launch strategy. The promising 2020 EPS guidance is indicative that this solid momentum will continue. 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. Henry Schein's other major distributing deals 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 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 Dentrix Smart image integration solution. This apart, Henry Schein's cloud-based dental practice management system Dentrix 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 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.

During the fourth quarter, the company launched several products within the Henry Schein One portfolio. The company introduced the beta version of its Tech Dentrix to streamline collection procedures, curb mailing costs and boost cash flow. The company launched Dentrix G7.3 to improve insurance payment procedures. During the fourth quarter, Henry Schein launched a chairside dashboard for Dentrix Ascend in the Symbian cloud-based system, which delivers enhanced clinical patient outcomes for the dentists. Also, the company completed development work with Dentrix Ascend, helping the platform combine data and function better.

The company has also 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 Dentrix Ascend. In 2019, Henry Schein One acquired dental practice management solutions company, Kopferwerk.

▲ **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.

During the fourth quarter, Medical sales growth continued to be driven by solid contribution from the recently-closed acquisition of North American Rescue.

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. Henry Schein has also 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.

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

▲ **Attractive Returns to Shareholders:** The company exited 2019 with cash and cash equivalents of \$106.1 million compared with \$56.9 million at the end of 2018. Cumulative cash flow from continuing operations at the end of 2019 was \$820.5 million compared with \$450.9 million in the year-ago period.

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.

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.

▼ **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. 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.

Last Earnings Report

Henry Schein Q4 Earnings and Revenues Top Estimates

Henry Schein, Inc. reported adjusted earnings per share from continuing operations of 97 cents in the fourth quarter of 2019, up 8.9% year over year. Adjusted earnings beat the Zacks Consensus Estimate by 6.6% on revenue growth across each of its operating segments.

On a reported basis, earnings from continuing operations was \$2.25, showing a stupendous increase of 192.2% on a year-over-year basis primarily due to a net gain on the sale of equity investments.

For 2019, adjusted earnings was \$3.51, up 10.7% from the year-ago period. The bottom line beat the Zacks Consensus Estimate by 1.7%.

Quarter Ending **12/2019**

Report Date	Feb 20, 2020
Sales Surprise	1.06%
EPS Surprise	6.59%
Quarterly EPS	0.97
Annual EPS (TTM)	3.51

Revenues in Detail

Henry Schein reported net sales of \$2.67 billion in the fourth quarter, up 8.1% year over year. The metric beat the Zacks Consensus Estimate by 1.1%. The year-over-year improvement came on the back of 5.8% internal sales growth in local currencies along with acquisition growth of 3.1%. Unfavorable foreign currency exchange made a 1% impact on the top line.

Excluding 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 4.9%.

For 2019, revenues totaled \$9.98 billion, up 6.1% from the year-ago period. The top line beat the Zacks Consensus Estimate by 0.3%.

In the quarter under review, the company recorded sales of \$1.95 billion in the North American market, up 8.2% year over year. Sales totaled \$721.1 million in the international market, up 7.2% year over year.

Segment Analysis

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

In the fourth quarter, the company derived \$1.72 billion of global Dental sales, up 2.9% year over year. This includes 4.2% growth in local currencies and 1.3% adverse impact of foreign currency exchange. At local currencies, internally-generated sales grew 2.5% and acquisition growth was 1.7%.

Worldwide Medical revenues climbed 15.2% year over year to \$788.7 million. Internally-generated sales grew 10.2% and acquisition growth was 5%. The company did not face any impact from foreign currency exchange.

Revenues from global Technology and Value-added Services grew 20% to \$137.1 million. This included 20.3% growth in local currencies and a 0.3% drop, owing to adverse currency translation. At local currencies, internally-generated sales grew 9.4% and acquisition growth was 10.9%, led by the contribution from Lighthouse 360.

Margin Trend

Gross profit increased 7.9% to \$810.6 million in the reported quarter. Gross margin, however, remained flat year over year at 30.4%. Adjusted operating income improved 1.4% year over year to \$194.7 million. However, adjusted operating margin contracted 47 bps to 7.3%.

Financial Position

The company exited 2019 with cash and cash equivalents of \$106.1 million compared with \$56.9 million at the end of 2018. Cumulative cash flow from continuing operations at the end of 2019 was \$820.5 million compared with \$450.9 million in the year-ago period.

During the quarter under review, Henry Schein repurchased 8.2 million shares of its common stock for approximately \$525 million. At the end of the year, it had \$275 million authorized for the repurchase of common stock.

2020 Guidance

The company has reaffirmed its adjusted earnings guidance for 2020. It expects adjusted earnings of \$3.65 to \$3.75, suggesting 4-7% growth from that reported in 2019. The guidance assumes no significant supply-chain disruption related to the Novel Coronavirus Disease 2019 (COVID-19) for certain infection control products. The Zacks Consensus Estimate for 2020 adjusted earnings is pegged at \$3.71.

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 up 1.2% in the year-to-date period and up 12.9% in the trailing 12-month periods. Stocks in the Zacks sub-industry are up 5.2% while the Zacks Medical sector rose 1.9% in the year-to-date period. Over the past year, the Zacks sub-industry is down 3% and sector is up 1.6%.

The S&P 500 index is up 3.6% in the year-to-date period and increased 18.5% in the past year.

The stock is currently trading at 18.1X Forward 12-months earnings, which compares to 18.2X for the Zacks sub-industry, 21.2X for the Zacks sector and 19.1X 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 20.9X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$71 price target reflects 18.9x 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	18.05	18.16	21.24	19.09
	5-Year High	26.03	19.99	21.46	19.34
	5-Year Low	13.49	13.70	15.82	15.18
	5-Year Median	20.93	16.67	18.87	17.47
P/S F12M	Current	0.94	0.37	2.84	3.51
	5-Year High	1.26	0.37	3.84	3.51
	5-Year Low	0.64	0.23	2.45	2.54
	5-Year Median	1.02	0.28	2.97	3.00
P/B TTM	Current	2.73	4.65	4.63	4.83
	5-Year High	5.32	4.93	5.05	4.90
	5-Year Low	2.47	2.53	3.44	2.85
	5-Year Median	4.21	3.46	4.32	3.62

As of 2/21/2020

Industry Analysis Zacks Industry Rank: Top 30% (77 out of 255)



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	-	-	D	B	A
Market Cap	9.91 B	1.86 B	24.03 B	116.28 B	23.73 B	2.18 B
# of Analysts	9	5	13	8	4	8
Dividend Yield	0.00%	0.00%	1.76%	0.42%	0.00%	4.58%
Value Score	A	-	-	D	D	A
Cash/Price	0.01	0.07	0.04	0.17	0.00	0.06
EV/EBITDA	10.83	12.56	14.08	25.95	42.40	12.09
PEG Ratio	2.18	2.04	2.08	2.56	NA	2.49
Price/Book (P/B)	2.73	4.19	3.29	4.05	133.45	1.49
Price/Cash Flow (P/CF)	13.99	13.50	13.42	26.05	46.26	10.12
P/E (F1)	18.03	21.50	19.00	29.72	50.66	16.01
Price/Sales (P/S)	0.99	1.70	2.64	5.83	9.86	0.39
Earnings Yield	5.48%	3.60%	5.26%	3.37%	1.97%	6.25%
Debt/Equity	0.22	0.32	0.70	0.75	4.31	0.49
Cash Flow (\$/share)	4.83	1.80	7.03	6.21	6.01	2.24
Growth Score	B	-	-	C	A	B
Hist. EPS Growth (3-5 yrs)	8.77%	8.88%	10.84%	2.72%	23.57%	-12.79%
Proj. EPS Growth (F1/F0)	5.35%	11.94%	7.09%	23.25%	12.27%	1.43%
Curr. Cash Flow Growth	-15.93%	4.49%	6.72%	-1.09%	12.07%	-11.19%
Hist. Cash Flow Growth (3-5 yrs)	8.23%	12.65%	8.25%	5.87%	11.91%	-3.58%
Current Ratio	1.58	1.65	1.22	5.19	0.94	1.59
Debt/Capital	23.03%	26.69%	42.37%	41.54%	81.17%	32.97%
Net Margin	6.96%	3.00%	11.56%	15.09%	17.77%	1.01%
Return on Equity	15.01%	15.19%	16.80%	11.50%	283.27%	8.97%
Sales/Assets	1.40	1.02	0.55	0.35	1.38	1.67
Proj. Sales Growth (F1/F0)	3.16%	5.08%	3.90%	6.62%	9.84%	0.86%
Momentum Score	A	-	-	B	A	C
Daily Price Chg	-2.00%	0.00%	-0.83%	1.01%	-1.19%	0.53%
1 Week Price Chg	3.09%	1.92%	1.65%	2.44%	3.73%	0.48%
4 Week Price Chg	-4.87%	0.00%	-0.37%	-0.37%	-2.72%	-3.44%
12 Week Price Chg	-3.46%	9.19%	3.74%	10.43%	10.93%	16.09%
52 Week Price Chg	12.60%	6.54%	14.14%	43.98%	35.01%	3.08%
20 Day Average Volume	1,093,988	365,561	1,992,841	2,164,983	441,581	699,873
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.02%	0.69%	1.34%	0.00%
(F1) EPS Est 12 week change	-0.06%	0.00%	-0.17%	-2.13%	1.34%	3.18%
(Q1) EPS Est Mthly Chg	0.33%	0.00%	-0.48%	5.64%	0.20%	0.00%

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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