

- It is a pleasure to join you today for the Dental Group Practice Association meeting.
- Let me begin by saying, on behalf of everyone at Henry Schein,
  - how very much we appreciate dental support organizations as a segment of increasing importance in the profession,
  - and reiterating our commitment to supporting the dental support organization segment as solidly as we have supported private dental practices for decades.
- In fact, Henry Schein was the first in our industry to recognize the importance of the emerging dental support organization segment 18 years ago,
  - when we established our Special Markets group under the leadership of Hal Muller in 1995 to serve the unique needs of this growing sector.
- As part of this long-term commitment, we will continue to build our product and service offerings tailored to meeting your needs,
  - and hope to forge strong partnerships with everyone here today in operating more efficient and profitable practices.
- Today, we want to share our perspective on some of the larger global forces influencing the dental community we serve,
  - on trends within the dental category specifically,
  - and on partnership and the importance of working together.



- We live in a constantly changing world.
- Stanley Bergman attended this year's World Economic Forum, where the tone was the most optimistic in five years and the topics once again were wide-ranging:

#### Financial & Geopolitical:

- Middle class expansion (from 500 million to 1.7 billion by 2020) will be a critical economic driver
- U.S. economy: Continued slow recovery -- much depends on debt and deficit reduction
  - U.S. rebalancing towards Asia; won't work for Chinese, but with them
- China: 7.8% GDP growth, focus on domestic consumption, 80% of population in cities, monetary policy driving imports – all good news for Henry Schein expansion in China
  - China focused on economy and domestic issues (corruption)
- Europe – determining the relationship between austerity and growth; moving from economic to political unity
- South Korea now balancing the U.S. and China; Threats from North Korea
- Africa: 5.7% growth, no longer a frontier market – now a growth market
  - Africa – increase intra-Africa trade; increase self-sustainability; create more SMEs and reduce unemployment; if not contained, Mali issues will spread
- Multiple Middle East issues: Iran (sanctions/nuclear bomb); Syria (civil war); Egypt (continuing crisis); Al Qaeda (lingering threat, need for jobs for youth in Middle East)

#### Demographic:

- By 2025, Asia will be two-thirds of the world's population
- Africa will have more working people than China by 2050
- U.S. immigration is a huge job creator
- "Youth bulge" -- 26% of the world's population is under age 15;
  - In many developing countries throughout sub-Saharan Africa, southern Asia, the Middle East and the Pacific Islands, the range goes from 40%-52%.
  - Each year, 121 million adolescents turn 16 years old – 89% of these are in developing regions -- youth bulge can be opportunity to spur economic growth, but jobs must be created for the young.
  - Young people are demanding more openness, inclusiveness, accountability.

#### Health Care:

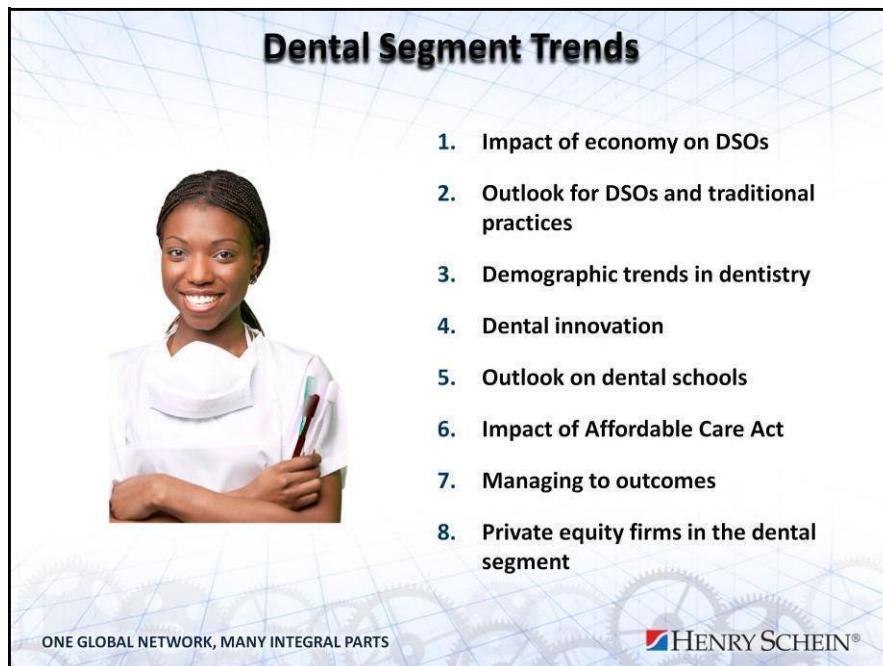
- "We don't have health care – we have sick care." -- Christopher Viebacher, Sanofi CEO
- Prevention, wellness, outcomes and technology will be the focus
- Threat of an influenza pandemic from H3N2 strains moving from animals to humans; pandemic preparedness is essential.
- Suggested priorities to reduce health care spending:
  - Cover everyone; move to bundled fees; consumer buying of health care; medical malpractice reform; health care IT; consumers subsidize global pharma research

#### Environment:

- "If we do not deal with the environment, we will be roasted, toasted, fried and grilled."

#### Leadership:

- There will be a complete reinvention of business.
- "Leaders must ignite passion. They must have soul, heart, brain and nerves to advance a values-based vision." – Klaus Schwab
- ICE – Innovation, Creativity, Entrepreneurship
- The WEF underscores the fact that we live in a world that is a complex global network in which everything is interconnected.
- Amid these changes Henry Schein remains relatively constant, stable and growing.
- This is because we have created a strong global network of our own to provide solutions to our customers.



The slide features a title 'Dental Segment Trends' at the top center. Below the title is a photograph of a smiling dental professional wearing a white uniform and holding dental instruments. To the right of the photo is a numbered list of eight trends. At the bottom left is the slogan 'ONE GLOBAL NETWORK, MANY INTEGRAL PARTS'. The bottom right corner displays the Henry Schein logo.

## Dental Segment Trends

1. Impact of economy on DSOs
2. Outlook for DSOs and traditional practices
3. Demographic trends in dentistry
4. Dental innovation
5. Outlook on dental schools
6. Impact of Affordable Care Act
7. Managing to outcomes
8. Private equity firms in the dental segment

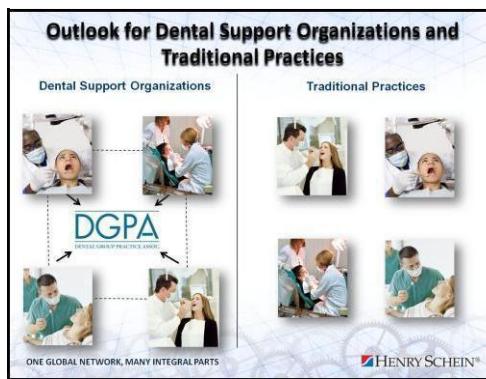
ONE GLOBAL NETWORK, MANY INTEGRAL PARTS

 HENRY SCHEIN®

- In addition to these global influences, there are several important dental segment trends that are affecting our company and the members of the Dental Group Practice Association.
- Among these are:
  - The impact of economy on DSOs
  - The outlook for DSOs and traditional practices
  - Demographic trends in dentistry
  - Dental innovation
  - The outlook on dental schools
  - And the role of private equity firms in the dental segment



- First, let's look at the economy, which has been very challenging for dentists in most of the developed countries.
  - From a short-term perspective, the economics of dentistry generally mirror that of the larger economy.
  - Dentists typically do not see a downturn in their productivity until well after a general economic downturn
    - and do not see a return to the norm until well after other segments have recovered.
  - Patients delay recall and check-up visits, as well as substantive care that is not essential.
  - The time gap for dental economic recovery after general recovery is due to the need to rebuild consumer confidence.
- However, the long-term economic outlook for the dental community is excellent.
  - Dental treatment costs will continue to be a relatively affordable facet of one's overall health.
  - The dental profession also has been making progress to secure better benefits from the government and state programs that will provide dental care to more individuals,
    - which should lead to increased dental demand and dental economic growth.
- Within this economic framework, dental support organizations are growing exponentially and should continue to see increased growth.
  - DSOs are providing more dental services.
  - DSOs are expanding market share through acquisition and marketing programs.
- DSOs are appealing to consumers on several levels.
  - There is a perception that a DSOs services are standardized and more cost effective,
    - and that due to their size and multiple locations there is a higher level of training and quality of care provided.
  - For these reasons and in today's economy, consumers in need of dental services are increasingly selecting a DSO rather than seeking out a solo dental clinician.
- The future of DSOs worldwide is very optimistic.
  - DSOs will further institutionalize the delivery model and continue to improve the quality of training provided to members of the Dental Group Practice Association.



- Compared to traditional dental practices, the future growth of DSOs is very optimistic for a number of reasons:

**Cost of investment for a graduating dentist.**

- In 2008, only 9% of the graduating students were debt-free at graduation.
  - 79% of the students owed \$100,000 or more and 51% owed \$175,000 or more.
  - The average debt per student was \$187,000,
    - so there is enormous pressure to see a high volume of patients to service student loans.
- Rather than assume ownership of a private practice, young dentists are happy to be paid well for their work and have other parties be responsible for the operation and costs of the office.

**Greater flexibility and mobility afforded by a DSO.**

- Many young dentists are interested in part-time employment.
- Female dentists, who also juggle their family role as mothers, prefer this freedom to work on their own time schedules.

With the added complexity of technology and requirements of running a business, DSO's are becoming more attractive.

- Solo private practice requires the dentist to be CEO of a small or medium-sized enterprise (an SME),
  - which decreases the amount of time a dentist can devote to patient care.

A DSO represents decreased risk for a clinician who might otherwise consider opening a private practice.

- DSOs enable leaner expense sides and standardized central management.
- DSO purchasing power is great, and technology allows quality control and outcomes analysis to be optimized.

**Demographic Trends in Dentistry**

ONE GLOBAL NETWORK, MANY INTEGRAL PARTS

HENRY SCHEIN®

- Recent demographic trends in dentistry are continuing, and bode well for the DSO side of dentistry.
  - Gender distribution in the profession continues to become more balanced.
    - Women are becoming dentists in far larger numbers than in the 1970s and 1980s.
    - According to the ADA, 44.5% of 2008 dental school graduates were women, and by 2020 it is projected that 30% of the practicing dentists will be women.
    - Women entering the profession may be more attracted by the flexibility and production-based compensation offered by DSOs.



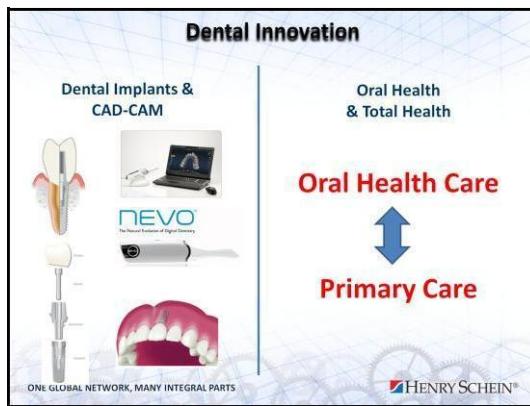
- The dental workforce is aging.
  - By 2020, 40% of dentists will be 55 years or older.
  - The median age of dentists should then begin to decrease with the gradual retirement of the Baby Boomers.
- Over the next 3-10 years, we will see an accelerated retirement rate within dentistry.
- Baby Boomer dentists who entered the profession in the late 1960s and 1970s, when 8,000 dentists graduated each year for a decade, have remained in practice well beyond their predicted retirement age for a number of reasons:
  - Good health
  - Greater than anticipated earnings
  - Inability to sell their practice
  - Retirement income benefits have been seriously affected twice in the past decade
- These factors have compelled many Baby Boomer dentists to practice an extra 5-10 years,
  - but we are going to come to point when age will dictate that they retire.
- We are now graduating 4,800-5,000 dentists annually, far short of the needed number of potential buyers for Baby Boomer dental practices.
  - As a result, DSOs have more potential practices to buy, staff and manage.
- The challenge for DSOs will be incenting and maintaining high quality performers and producers.

**Demographic Trends in Dentistry**

ONE GLOBAL NETWORK, MANY INTEGRAL PARTS

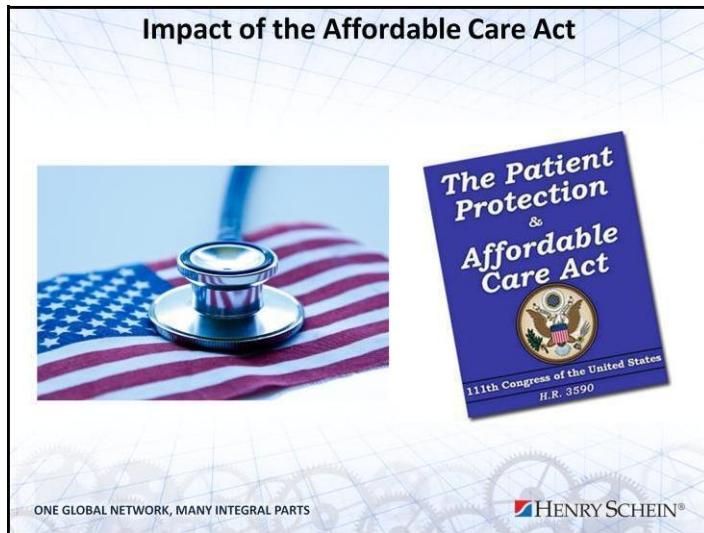
HENRY SCHEIN®

- Two additional demographic changes that will be important:  
Increasing cultural and ethnic diversity in dentistry remains a challenge
    - This should be a priority for the profession as the demographics of the U.S. population continues to evolve,
      - and minorities become the majority in our country.
- The gap between access in rural and urban settings is widening.
- The incentive programs to draw practitioners to areas with underserved populations do not seem to be working.

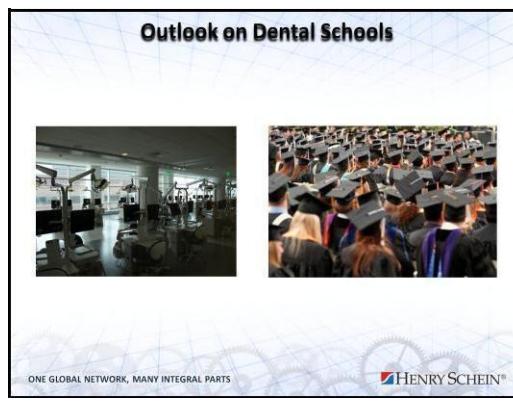


- We see two important innovations that will affect the dental profession in the future.

1. Expanded use of implants by general dentists for simple and moderate procedures.
  - The use of implants will be easier for general dentists to understand with clinically targeted education.
  - Implant systems will be smaller and simpler to install.
  - Guidance and alignment systems will help dentists identify exactly where an implant should be placed and which implant size to use.
  - There also will be an expanded use of digital CAD-CAM for the prosthetic, either by the dentist in the office or through their relationship with a dental laboratory.
    - This is part of the continued adoption of clinical technology, such as digital imaging, in the dental practice.
  - Adoption of implants should increase as the economy recovers and patient demand is restored, combined with the growing education of dentists in the use of implants.
2. The general public will increasingly appreciate the close connection between oral health and overall health and primary care.
  - There will be an increase in chairside and laboratory oral diagnostics for perio testing, oral cancer detection, and blood or enzyme tests for general health conditions.
  - Dentists will be more aware of patients undergoing cancer therapy, and of the link between periodontal disease and pregnant women, individuals with heart conditions and diabetics.
  - Dentists will do more patient evaluation as part of their dental service than in the past.
  - In some cases in larger groups and urban settings, nurse practitioners or physician assistants will be more closely aligned with dental practices than before.
    - This is part of the emergence of the “health home” that closely coordinates dental and medical care for a patient.



- According to ADA projections:
  - Approximately 8.7 million children could gain extensive dental coverage through the ACA by 2018
  - About 17.7 million adults could gain some sort of dental coverage through the ACA
  - Only 4.5 million adults will gain extensive dental benefits through Medicaid
  - About 800,000 adults will gain dental benefits through the health insurance exchanges
  - The number of children without dental benefits could be reduced by approximately 55%
  - The number of adults without dental benefits might be reduced by approximately 5%
  - Through Medicaid, ACA is predicted to generate an additional 2.9 million pediatric dental visits and 7.5 million adult dental visits
  - Through expansion of dental benefits through the exchanges and employer-sponsored insurance, ACA is predicted to add 11 million pediatric private dental visits and 1.7 million adult private dental visits
  - ACA will increase U.S. dental spending by an estimated \$4 billion, less than 4% of current national dental expenditures (\$2.4 billion Medicaid; \$1.6 billion exchanges/employer insurance)



- Dental demand by an aging population means that the future of dentistry is bright, and so is the future of dental schools.
- In the past decade, eight new dental schools have opened, and 10 new schools are under serious consideration.
  - New dental schools are mostly privately-owned by osteopathic health center institutions, as opposed to academic, research-driven medical centers and state schools.
- Prospective dental students see the profession as prestigious and a path to income, independent organized work, and possibly entrepreneurship.
  - Demand for dentists continues to grow, so there is security.
  - Dentistry is highly transferrable from one location to another.
  - While the cost of a dental education is very high, it is still reasonable when viewed as a percentage of future earnings.
  - Historically, dentistry also has been a great investment in a child's career by many first generation immigrants to the United States,
    - which now includes Asian, South American and Middle Eastern families.
- With new schools opening and a strong pool of applicants,
  - the number of graduating dentists could increase to 6,000 or 7,000 annually by 2020.
- The new dental schools that are opening allow students to learn in clinical facilities outside of the school site,
  - offering a prospective curriculum of clinical training, development and teaching, as opposed to research and science.
- As schools compete for qualified applicants, there is great investment in technology at the schools.
- There also is stronger emphasis on the relationship of medical and dental disciplines,
  - so we can expect graduating dental practitioners to interact more regularly and actively with the medical community.

## Private Equity Firms in the Dental Segment



ONE GLOBAL NETWORK, MANY INTEGRAL PARTS

 HENRY SCHEIN®

- As we all know, there also has been the entry of private equity firms into the dental segment in the past few years.
  - This infusion of capital in DSOs is an important way to expand access to oral health care in more locations across the country.
- There should be a balance that preserves this commitment that dentists feel to provide their patients with high-quality care,
  - while addressing the financial expectations of private equity firms that have invested in DSOs.
- This is an area where Henry Schein can play a critical role.
  - The products, services and counsel that we offer our dental customers are tailored to help them strike the right balance between
    - Increasing practice efficiency and continuing to deliver high quality patient care.



- This leads me to my final topic today – partnership and the importance of choosing a partner:
  - Who shares your long-term commitment to practice building;
  - Who understands the market and has the strength to weather challenging economic conditions;
  - Who gives back to the dental profession;
  - And who recognizes that partnership with you, our valued customers, is a privilege that is earned,
    - and who appreciates the trust you have placed in our Company.



- It also is important to choose a partner who recognizes the importance of technology.
- We are committed to being the technology leader in the markets we serve,
  - providing our customers with software, hardware and networking support and playing a consultative role in building their practices.
- Our leadership in technology is a reflection of our commitment to enable you, our customers, to operate efficient practices and focus on providing quality clinical care for patients.
- The digital dental highway runs directly through Henry Schein,
  - and ConnectDental is how we are navigating that highway.
- As restorative dentistry quickly transitions from clinical and laboratory methodologies to all-digital ones, we are
  - collaborating between our key business divisions—Henry Schein Dental, Zahn and Henry Schein Practice Solutions;
  - weaving together the products and services, with our partners, that result in comprehensive, affordable and usable systems, which doctors and labs will adopt in large numbers;
  - and educating and assisting our customers in understanding the change, helping them make the right choices and transition to this digital technology.



- Finally, we believe that it is important to choose a partner that is committed to corporate social responsibility worldwide.
- Working closely with our supplier partners and customers, Henry Schein Cares focuses on expanding access to care for underserved populations by
  - advancing wellness,
  - building capacity in the delivery of health care services
  - and assisting in emergency preparedness and relief.
- In 2012 and 2013 we were named one of The Ethisphere Institute's Most Ethical Companies, one of just 145 companies from around the world.
- Year after year, we have seen our Henry Schein Cares activities grow around the world.

## Dental Group Practice Association and Henry Schein

**“Our Best Years Are  
Yet to Come.”**



ONE GLOBAL NETWORK, MANY INTEGRAL PARTS

 HENRY SCHEIN®

- In conclusion, we should all remember that even during challenging times,
  - Henry Schein and the many members of the Dental Group Practice Association who we serve represent the very best that the dental community has to offer.
- By remaining committed to each other,
  - and by working together to help dentists enhance the quality of care they provide to patients while increasing practice efficiency,
    - we will remain in a strong strategic position together,
    - and ensure that our best years are yet to come.