FINAL TRANSCRIPT

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CORPORATE PARTICIPANTS

Susan Vassallo
Henry Schein - VP Corporate Communications

Stanley Bergman
Henry Schein - Chairman, CEO

Steve Paladino
Henry Schein - CFO

CONFERENCE CALL PARTICIPANTS

Steven Postal
Lehman Brothers - Analyst

John Kreger
William Blair - Analyst

David Veal
Morgan Stanley - Analyst

Lisa Gill
JPMorgan - Analyst

Glen Santangelo
Credit Suisse - Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Henry Schein first quarter conference call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will follow at that time. (OPERATOR INSTRUCTIONS). As a reminder, today, ladies and gentlemen, this call is being recorded. I would now like to introduce your host for today's call, Susan Vassallo, Henry Schein's Vice President of Corporate Communications. Please go ahead, Susan.

Susan Vassallo - *Henry Schein - VP Corporate Communications*

Thank you, operator, and my thanks to each of you for joining us today to discuss Henry Schein's first quarter results. If you have not received a copy of our earnings news release issued earlier this morning, please call 631-843-5937, and a copy will be faxed to you immediately, or, of course, you can obtain a copy on our website at www.henryschein.com. With us this morning are Stanley Bergman, Chairman and Chief Executive Officer of Henry Schein, who is calling in today from abroad, and Steven Paladino, Executive Vice President and Chief Financial Officer, as well as Neil Goldner, Vice President of Investor Relations.

Before we begin, I would like to point out that as always, certain comments made during this call will include information that is forward-looking. As you know, risks and uncertainties involved in the company's business may affect the matters referred in to forward-looking statements. As a result, the Company's performance may differ from those expressed in or indicated by such forward-looking statements. Further, these forward-looking statements are qualified in their entirety by the cautionary statements contained in Henry Schein's Securities and Exchange Commission filings.

The content of this conference call contains time sensitive information that is accurate only as of the date of this live broadcast, May 8th, 2007. The company undertakes no obligation to revise or update any forward-looking statements to reflect events or circumstances after the date of this conference call. I ask that please during the Q and A portion of today's call, you limit yourself to a single question before returning to the queue. This will provide as many listeners as possible the opportunity to ask a question within the one hour we have allotted for this call. Thank you very much. With that said, I would like to turn the call over to Mr. Stanley Bergman.

Stanley Bergman - *Henry Schein - Chairman, CEO*

Thank you, Susan, and good morning, everyone, and thank you for joining us for Henry Schein first quarter 2007 conference call. We're very pleased with our first quarter financial results, rather solid, and, once again featured double-digit sales growth in each of our business groups as we continue to gain market share across the board. We also reported operating margin expansion as we leverage our growing top line and focus on selling higher margin products across our established infrastructure.

I will give you some specific thoughts on our accomplishments this quarter with a view of the market across the board from our dental, medical, and international groups. But before I go into that, let me ask Steve Paladino, our Chief Financial Officer, to provide you with an overview of our quarterly financial performance, and then I'll give a bit more color. Thank you very much. Steve.

Steve Paladino - *Henry Schein - CFO*

Thank you, Stan. I'm also very pleased to report solid financial results for the first quarter. As we have done with past quarterly earnings news releases and conference calls, prior year financial information has been restated to report the hospital supply business as a discontinued operation and to exclude that business from the detail of our income statement. For purposes of comparability, I will discuss our results from continuing operations without the discontinued hospital supply business that was included in 2006.

Our net sales for the quarter ended March 31st, 2007 were $1.3 billion, reflecting 14.8% growth over the first quarter of 2006, or 12.4% growth in local currencies. 4.2% of this growth was internally or organically generated, while 8.2% was acquisition growth primarily due to the acquisitions of certain Darby Group companies and NLS Animal Health, both in the U.S., as well as Provet in Switzerland. Please note that the details of our sales growth are contained in Exhibit A in our earnings news release. Our operating margin for the first quarter of 2007 was 5.5%, 30 basis points higher than the operating margin from continuing operations in the first quarter 2006. This was primarily driven by sales mix and our focus on higher margin products.

Our effective tax rate from continuing operations for the quarter was 35.5% and that compares to 36.4% in the first quarter of 2006. We expect our effective tax rate during the balance of 2007 to remain in that 35% range. Our first quarter income from continuing operations was $43.5 million, which represents growth of 22.1% from the prior year's first quarter. Our earnings per diluted share, also from continuing operations for the first quarter was $0.48 per share, reflecting an increase of 20% over the first quarter of 2006.

Let me now provide you some detail on our sales results for the quarter. Dental sales for the first quarter of 2007 were $563 million, representing a 16.7% growth in U.S. dollars, or 16.9% in local currencies. 9.9% of this local currency growth was internally generated, and approximately 7% was primarily due to certain acquisitions of certain companies of the Darby Group. I'm pleased to report that the performance of the acquired Darby companies continues to track above our acquisition model expectations. Consumable merchandise sales for our dental group was 14.6% ahead of the prior year in local currencies, and 6.2% of that was internally generated. Our dental equipment sales and service revenues were 25.6% ahead of the prior year in local currencies and 23.5% of that growth was internally generated.

Sales of high-tech equipment including digital x-ray products from our recent agreements with Biolase and ISI helped drive our dental equipment growth rates. However it's also important to note that growth of our traditional equipment during the quarter was in excess of our estimates for the market growth rates. Medical sales were $372 million in the first quarter, up 11.3%. Internal sales growth declined by about 1.9%, and that was offset by acquisition growth of 13.2%. We estimate that the medical group internal sales growth, excluding sales of all pharmaceutical products, represents a market share gain for the quarter. Later on this call, Stanley will discuss an exciting new initiative in our medical group, which we believe will have long-term positive benefits to our medical group sales growth as well as profitability.

Moving to our international group, sales for the first quarter of 2007 were $371 million U.S., up 15.1% over the prior year. Growth in local currencies was 6.1%, with internal growth 1.1% and 5% due to acquisition activity related to the probe at acquisition. Foreign currency exchange contributed about 9% to our growth.

We believe our international group results were negatively affect by about three factors during the quarter. The first was the timing of the international dental show, or IDS, which was held near the end of the quarter. This show tends to feature a number of new products, in particular, high-tech product. So in the months leading up to the show, dentists tend to hold off on their equipment purchases. That should make for a strong second quarter equipment sales growth. Second reason is, I'd like to point out, is that international business reported over 11% internal sales growth in the first quarter of 2006. So that was a more difficult comparison than normal quarters. And finally, as we discussed on last quarter's conference call, we saw an accelerated equipment sales in Germany in the fourth quarter of 2006 due to an increase in the VAT, or value added tax, that went into effect at the beginning of 2007.

So with all of that, we expect to resume solid sales growth in the second quarter for our international business. Moving to technology and value added service sales, they were $28.4 million and were 24.6% ahead of Q1 of '06, with 24.7% growth in local currencies, offset by a 0.1% decline in foreign currency exchange rates, and that 24% local currency growth was 17.7% internally generated, and 7% from acquisition activity. Our electronic services, our software business, and our financial services businesses all experienced very strong revenue growth in the quarter.

Let's briefly take a look at some of the highlights of our balance sheet and cash flow. Operating cash flow for the quarter was negative $34 million. That compares to a negative $38 million in last year's first quarter. Due to seasonality, our cash flow is typically negative in the first quarter. We continue to expect to generate strong operating cash flow for the year ,and to achieve our goal of having operating cash flow exceed our net income.

Our accounts receivable days sales outstanding from continuing operations was 42 days for the first quarter and that represents an improvement of 0.6 days over last year's first quarter. Our inventory turns from continuing operations were about 6.5 turns for the quarter, and that's essentially equal to last year's first quarter. And we increased our return on committed capital from continuing operations to 28.4% in the first quarter, and that compares to 27.7% last year.

Let me conclude my remarks by affirming guidance for 2007. Diluted EPS is expected to be in the range of $2.51 to $2.57. This represents an increase of 23 to 26%, compared with our 2006 diluted EPS from continuing operations. Our 2007 guidance includes our expectations that we will distribute approximately 20 million dose of influenza vaccine during 2007. We also expect mid teens EPS growth in the second quarter of 2007 compared with the second quarter of 2006. And finally, all of this guidance is for current continuing operations, including completed or previously announced acquisitions but does not include any impact of potential future acquisitions, if any.

Let me turn the call back over to Stanley Bergman.

Stanley Bergman - *Henry Schein - Chairman, CEO*

Thank you, Steven. Let me touch on our dental and international groups before returning to our exciting medical group initiatives as Steve alluded to in his remarks early on. As Steven mentioned, first quarter financial performance by our dental group was outstanding with sales up 17%. While the overall dental market is healthy and the outlook is favorable, we are proud to be outpacing market growth and to be gaining market share. Our positive view of the dental market was reinforced with the Chicago midwinter dental meeting which was held in late February. This is one of the industry's largest and best attended trade shows. And this year's show was extremely attractive.

Local regional shows since that date also reaffirmed the position. Our interactions with our suppliers and customers at the show supports our belief that there is a high level of interest among dentists in the United States and, in fact, in the United States and Canada, in advanced technology products, including lasers, dental imaging equipment, both of which help dental offices run more efficiently and deliver superior patient satisfaction. The flat to slightly declining rate of dentists per capita in the United States is, in fact, driving, in our view, the need for practice efficiency. In addition, while dental practices are serving more patients, demand for dental services is rising as the baby boomer generation continues to age and spend on their health, including specifically preventative and cosmetic procedures.

Demand for imaging equipment services as well as for dental implants remain strong as well. Interest in the Evolution 4-D Cat Can product was very high among dentists who visited our booth in Chicago and in shows in other parts of the country. We've displayed the E4D product prominently at our bath, and we look forward to the market launch of E4D later this year. On the international side, the IDS show in Cologne this year, held in March, in Cologne, Germany, the world's largest dental show, was very successful.

For those that are familiar with the dental industry you may know that the location of the IDS show provides particular intelligence for the German and dental markets and this reaffirms our understanding of the good mood amongst dentists in Germany and Austria, and reaffirms our belief that in fact the stabilization of those markets that we reported in previous calls is very much intact and, in fact, we see good momentum, particularly as a result of the views on reimbursement. There is an extremely high interest in advanced technological imaging products, and as with our strong customer and supplier relationships, this advanced technology imaging view of the marketplace positions us well to capitalize on the growth in this category.

Looking at our international group as a whole, in many markets we see increasing demand for high technological products, including equipment, as I just described, as well as for consumable merchandise, and therefore we expect solid sales growth for the second quarter and, in fact, for the rest of the year. We continue to make very good progress toward converting all of our European business to a common operating system. The common platform across Europe will provide many benefits including, as we've mentioned to shareholders in the past, inventory and purchasing efficiencies and will help to support our goal of expanding our international operating margin to the 6% level we continue to remain confident in that goal.

Now, let me turn to what we view to be an exciting opportunity for our medical group. Let me relate to an initiative that we have rolled out actually beginning in the early part of last month, April. This initiative, which we refer to as medical one world, has the goal of creating differentiated views of Henry Schein in the marketplace. The view of a national full-service operation that leverages and integrates our core competencies of field, telesales, direct marketing, and telesales. Through a combination of products, services, and value-added offerings, our objective is to create a compelling reason -- in fact, a continued compelling reason for our customers to use Henry Schein as their primary supply chain partner and to help our physician customers in the end run a more profitable business and provide better clinical care.

Under the plan of Medical One World, we have consolidated the three physician brands, namely Henry Schein, Telecorp and Darby Medical under the Henry Schein medical brand. We undertook a similar initiative, as shareholders will recall, as we combined the Sullivan brand and the Schein brand several years ago to create what we believe to be an extremely successful franchise, the Sullivan Schein Dental brand in the United States, a business we believe is gaining market share at a faster rate than any other large comparable dental full-service dealer. We are confident in the long-term benefit of this initiative to our customers, and in the end, we believe we'll continue to generate an increase in shareholder added value for Henry Schein.

The medical group results over the next several quarters will reflect the elimination of the duplication of these costs - and may reflect the small amount of sales erosion. Of course, this thinking is reflected in our guidance. We are very, very enthusiastic about our medical business, have been for awhile. In fact, since we've been public we've always been in the medical business for longer than that. In many ways, the strategy behind the Medical One World, as I indicated is a replication of the success of our North American dental group strategy. It where we combined Sullivan Schein in the U.S. and Ash Arcona and Schein in Canada. We have implemented this kind of strategy successfully in numerous countries as well, where we combined the leading franchises as well as in Australia and New Zealand.

Leading the Medical One effort is, of course, Mike Racioppi, the President of our medical group, and, Jim Breslawski, the President of Henry Schein, and of course, our Chief Operating Officer. Jimmy was the key architect behind the success of the creation of our U.S. dental franchise as we know it today, the Sullivan-Schein brand. We believe our medical business has a significant opportunity to enhance the way we serve the marketplace by deepening our relationship with physician customers, allowing our customers to operate more efficiently, as I indicated, while delivering high quality care to their patients.

So I think you will notice a degree of enthusiasm if you speak to our people involved in our medical group. It has taken us about two years to put the strategy together, and now we are executing it. It's based on research with customers and also based on ensuring that all the constituents involved internally in our various medical brands are aligned. The strategy is identical in concept to Sullivan-Schein.

Let me just note in that March our Company Board of Directors authorized an increase of $100 million to our stock repurchase program, which underscores yet again the confidence we have in the future of Henry Schein, Inc. So with those comments, let me thank you again for your attention. Now operator, perhaps we could answer some questions that our shareholders may have.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). As a reminder, please limit one question per caller. Your first question comes from the line of Glen Santangelo.

Stanley Bergman - *Henry Schein - Chairman, CEO*

Glen.

Operator

Glen, your line is open. That question has been withdrawn. Your next question comes from the line of Lisa Gill. Lisa, your line is open. That question has also been withdrawn. You have a question from the line of Steven Postal.

Steven Postal - *Lehman Brothers - Analyst*

Can you hear me?

Stanley Bergman - *Henry Schein - Chairman, CEO*

Yes, Steve, we can hear you.

Steven Postal - *Lehman Brothers - Analyst*

I just wanted to -- I had a quick clarification question and a follow-up question.

Stanley Bergman - *Henry Schein - Chairman, CEO*

Could you speak a little louder?

Steven Postal - *Lehman Brothers - Analyst*

Sure. Steve, can you talk about the sales force numbers?

Steve Paladino - *Henry Schein - CFO*

Sure. At the end of the first quarter, we had worldwide 2,438 field sales consultants. That's up 12 people from the end of Q4 of 2006. The components are our U.S. and Canadian dental business has 1256 sales people. Our medical business has 468 sales people. We have eight people in our technology business and international has 706 people. So that should total 2,438 worldwide field sales people.

Steven Postal - *Lehman Brothers - Analyst*

Okay. My follow-up question, I just wanted you guys to elaborate on your comments on the medical segment repositioning. Stan, is this a reflection of perhaps business trending away from the telesales part of the business, and then also, you guys have mentioned that the pharma business has been negatively impacting things for a number of quarters now. What is the percentage contribution from the pharma business in that segment, and you specifically mentioned the oncology impacting that. Has that oncology part of the business fully gone away or is there still some impact there?

Stanley Bergman - *Henry Schein - Chairman, CEO*

Yes, Steve, let me address the -- thank you for your question. As you know, we have these three franchises. One, of course is the Caligor franchise, which is specifically a field sales strategy with minimal direct marketing. Then, of course, there's the Henry Schein franchise and the Darby franchise, which are very much focused on telesales and mail order. We have allowed up to this point these businesses to operate independently, but without increase in market share it is now viewed that it would be best for the three businesses to collaborate together and focus on marketing in combination as we have in the dental world, Sullivan-Schein, as we have in the U.S. and Canada with Ash Arcona, in Australia, the combination with [Demetus], and of course, in Australia, the combination of the Henry Schein business with the Halas business.

We have had tremendous results on those combinations. And we feel that by combining the hybrid model of direct mail, telesales, in combination with the field sales consultants, all working together, we feel that we can, in fact, grow our market share even more on the medical side, and we have been working on this, as I said, for a couple of years now and actually pressed the button in April to actually formally launch this initiative. We are very confident. It's something that we've done a lot of market research with. From a customer point of view, but also internally from our telesales point of view but also internally from our telesales people and our field sales people. I think this is also reflective of the fact that we are becoming a bigger player on the equipment side and the telesales team has been very good at generating leads, but we'd like those leads to be turned over to a field equipment sales force and we feel that it's best to align the interests of all of these different constituents, including the team that is selling medical software. So that's the basis for this.

As far as the lower margin pharmaceuticals, there are two areas. First of all, there are some products that have moved from brand to generic, which, of course, reduces the selling price, but, of course, increases the margin. Then we have de-emphasized, as you know, the lower margin pharmaceutical branded pharmaceuticals, including the oncological side. When I talk about oncological, of course I'm referring to the pharmaceutical side. We still have a very good franchise that we are pushing on the med surge side, and that would be the same on the the renal side.

Products such as Remicade, to the extent they can bring us core business, of course we will pursue that but to the extent it's a stand-alone pharmaceutical sales, at those margins it's really not in our best interest to utilize our telesales and field sales capacity to go after that business. Steven, I think you may have some more specifics.

Steve Paladino - *Henry Schein - CFO*

Yes, so the couple of other things I would add to that is on some of these lower margin pharma products, it's not that we stopped selling them all together. As Stanley said, we've de-emphasized the sales of them so there's a component of our sales that have no growth on these low-margin products or slightly down, and that's impacting the overall medical group sales growth.

The pharma category for us in our medical group, from quarter to quarter could represent anywhere from 35 to 40 or 45% of the medical group sales, and that's why we'd like to look at separately because depending on the factors we just mentioned, as well as in future quarters, flu vaccine, which can vary quarter to quarter, we really look at the core strength of the continues on the med-surge and equipment business. As we said in the prepared remarks, those product categories are growing in excess of the market growth rates.

Operator

Your next question comes from the line of John Kreger.

John Kreger - *William Blair - Analyst*

Question about your dental equipment growth. Can you give us a sense of the organic growth total, how much of that would have come from your newer exclusive arrangements like Biolase and ISI as opposed to the ongoing product line that you've carried for a while?

Stanley Bergman - *Henry Schein - Chairman, CEO*

Yes, John. What we really have agreed to with our manufacturers is not to specifically relate to growth numbers on a particular product.Having said that, what we can report to you is that our core, what we call traditional equipment business, is quite strong, we are in our belief, growing market share and we believe the core chairs units lights x-ray unit business for Schein is doing well and we're gaining market share.

We are underpenetrated in that area. We do believe that overall about 30% of what the dentist is spending is with respect to equipment. Our general mix of sales is about 22, 23% equipment, so we're underpenetrated, and today we believe that because of our excellent sales and service network, both in terms of our sales personnel and installation and repair network and also what we believe today is a terrific product offering we are gaining market share. On the newer products we are doing quite well.

In fact, we believe very well, with digital x-ray. We've moved around the brand somewhat. We no longer promote a private brand, so how that business phases from private brand into one of the other brands is something that, of course, we study, but the shift has occurred. Having said that, overall, our sale of digital equipment is doing very, very well, and also the Biolase business is coming along nicely. It's only been two quarters now. We believe that the two sales forces are working well.

No question this is the leading product from our point of view, and we believe that in the long run this is going to continue to be a terrific relationship for Schein. On the ISI side, again, this is relatively newish technology for the dentist. We are confident that we will do well with the ISI brand as well as the Serona product that is going to enter the market. So overall, there is a growing movement within the dental community, within the dental practice, to focus more on equipment that is high-tech in nature to increase productivity, increase the quality of care and we believe that we will get not only our fair share but actually a much better market position than we have traditionally had in the dental field overall. So we're very, very optimistic and we continue to, we believe, show results in excess of our expectations.

John Kreger - *William Blair - Analyst*

Thanks very much.

Operator

Your next question comes from the line of David Veal.

David Veal - *Morgan Stanley - Analyst*

Just to press you on that in terms of the organic growth in core dental equipment, if you're taking share that would imply a low teens organic same store growth in that book of business. Is that the right way to think about it?

Steve Paladino - *Henry Schein - CFO*

Without getting into specifics I think that is the right way of looking at it. Equipment may be growing high single digits, the market may be -- it varies quarter to quarter because of things like trade shows, but certainly we have to be above that number to be gaining market share. And the other thing I would point out that Stanley did touch on is, we see strong equipment sales growth along, traditional equipment, namely dental chairs, delivery units, and overall packages, as well as high-tech products, digital x-ray, very strong sales growth still probably is the largest sub component of our equipment, Sales growth is coming from digital x-ray, and then, lastly is the new exclusives, but while they're good contributors, the core business is certainly gaining market share without the new exclusivities.

David Veal - *Morgan Stanley - Analyst*

And just on the E4D we've seen this movie before in terms of a year-end launch that comes and goes. What gives you confidence today? Are there milestones you can talk to that give you confidence that it it really will be this year, and if so, why not bake that into guidance?

Stanley Bergman - *Henry Schein - Chairman, CEO*

We remain confident from our dialogue with the manufacturer, as well as the other partners in the business, namely [Fiberclaw] and 3M that there will be a product. I think the testing that is going on, perhaps is a little more rigorous than was anticipated because of the addition of these partners, and from what we understand, the partners in the business as well as the principals remain highly confident that there will be a good product, it is working today in clinical settings but the view is that we need to do more testing to ensure that the expectations of the operation within a clinical setting will be in excess of what the customer is expecting. We believe that the product will be available for launch later this year.

David Veal - *Morgan Stanley - Analyst*

Okay. Thank you.

Steve Paladino - *Henry Schein - CFO*

And, David what I would had a is that the rationale for not including it in our guidance was really simply to avoid any potential concern by shareholders what happens if it is delayed or what happens if, how much would it impact us. So we felt the clean guidance to give is no profit contribution from the E4D product in 2007. Whatever profits we will have will be up side to our guidance. And again, precisely determining exactly what month the product will come out is a little bit difficult and it avoided having to deal with that precision.

Operator

(OPERATOR INSTRUCTIONS). Your next question comes from the line of Lisa Gill.

Lisa Gill - *JPMorgan - Analyst*

Good morning. Sorry about our earlier technical difficulty, that was on our side. Steve, I was wondering if you could go through a couple of the assumptions around the guidance that you've given. For example, on The repurchase program, is anything included within your guidance, number one? Then number two, around the flu expectations, you haven't been able to do 20 million doses in the last couple of years and the flu season has been pretty light in the last couple of years. Have a tendency to see that if there's no flu season people don't get the flu shot if you have two or three years where there's a light flu season. Can you talk us through a little bit around those expectations and your talks with the manufacturer?

Steve Paladino - *Henry Schein - CFO*

Sure, Lisa, I didn't get the first part of the question.

Lisa Gill - *JPMorgan - Analyst*

Just on the share repurchase. Do you have anything included at all in your guidance around the additional share repurchases?

Steve Paladino - *Henry Schein - CFO*

No, not really. The share repurchases that we've been doing, if you look at, for example, 2006, while it was accretive, the amount of a accretion for the year was very slight. Maybe it was something less than $0.01, so really not any -- anything baked into our guidance on any significant share buyback. The goal there is really to be opportunistic and in times when the stock is weak, to be buying, in a weak market.

Turning to flu vaccine, there was recently a flu summit and I've gotten some questions on what was new information for us out of this flu summit. Quite frankly, from our perspective, there really was no new information as far as manufactured doses that would be available in 2007. So that's the first point I wanted to make. And I guess secondarily, we feel good about being able to sell 20 million doses based on a number of factors, one being that we think the demand is at the distributor level and our customers will continue to come back to us, at least as an initial or first choice, of getting their flu vaccine. If we don't have it, you know, I think that they could go elsewhere if we don't have it, but I think our customers will come to us first. We do have a very stable market that we're expecting this year from a manufacturer perspective.

We're not expecting any significant amount of late season doses. The issue that happened in 2006 where our primary supplier was a bit delayed and got flu vaccine to us late in the year because of a one-time approval process is not expected to repeat. And I guess, two other factors are that one of our competitors is no longer going to be selling flu vaccine, and last year they sold five to six million doses, so that those doses will be available by other players in the market, hopefully we'll get a nice piece of that business.

And the last thing that we expect is we do expect the U.S. Government and the CDC to be a little bit more proactive in talking about the number of Americans that should be vaccinated, and recently, they have increased the number of Americans that they believe should be vaccinated from about 140 to 150 million Americans, and they're now saying that the recommended number of Americans that should be vaccinated is 200 million Americans. And, in prior years, because of product shortages and delays, there really has not been a proactive public awareness campaign on the benefits of getting flu vaccine and we're expecting it to be more proactive this year because we should have a healthy supply.

Lisa Gill - *JPMorgan - Analyst*

Thanks for the comments.

Steve Paladino - *Henry Schein - CFO*

Okay.

Operator

Your next question is a follow-up from the line of Steven Postal.

Steven Postal - *Lehman Brothers - Analyst*

Hi. Just one follow-up question. You guys talked about three components for some of the weak business in the international segment. I'm just wondering if you could give us some context as to which one of the three was the bigger contributor.

Steve Paladino - *Henry Schein - CFO*

Steve, it's a little difficult. We believe that the IDS impact, that's what we talked about that in our press release. The IDS we really saw customers delay their ordering of equipment until the IDS show, which was late in Q1, and our order book that goes into Q2 is a very healthy order book in Germany, so we think that probably is the largest contributor of impacting sales growth internationally. But again, please realize that some of that estimating is not a precise estimate. It's based on a lot of different factors, and that's why we named the other two matters. But as we said on the call, we certainly believe Q2 and beyond to resume good sales growth in our international and especially our German business.

Steven Postal - *Lehman Brothers - Analyst*

Okay. Steve --

Stanley Bergman - *Henry Schein - Chairman, CEO*

Following up on what Steve said, I think directionally it would appear, from what we are hearing in the marketplace, both from our representatives and our suppliers that the German marketplace is not as tentative as it was, say a year ago. Dentists are far more bullish. The labs may be a little more tentative, but the dentists are quite bullish. We see that also, by the way, in our implant sales, which are very strong in Germany. So we are quite optimistic about the German market, per se.

Steven Postal - *Lehman Brothers - Analyst*

Okay. And then --

Stanley Bergman - *Henry Schein - Chairman, CEO*

Doing okay for us.

Steven Postal - *Lehman Brothers - Analyst*

If and on your acquisition strategy, Stan, can you maybe just update us on that? Where would your areas of focus be? Obviously we've seen some multiples for acquisitions being bid up. What is your sense there?

Stanley Bergman - *Henry Schein - Chairman, CEO*

Yes, Steve. You know that our strategy is to continue to seek opportunities that are strategic to our current businesses. Namely, dental, medical, and vet, either expanding our market share in a particular geography where we already are or going into new markets, and the pipeline remains as robust as ever.

But at the end of the day, we only have a deal when we have a deal. We have specific investment hurdles that we need to meet. Our objective is to continue to drive up our return on committed capital over time, and we expect that investments would drive towards that goal as well as, by the way, the objective of increasing our operating margin and, of course, in the long run, therefore, also improve on the earnings per share and the cash flow of the business. Those criteria have been in place for a dozen years and we remain as bullish as ever that we'll be able to ensure internal growth and acquisition growth in the long run in exactly the same way as we've done for the past dozen years that we've been public.

Operator

Your next question comes from the line of Glen Santangelo.

Glen Santangelo - *Credit Suisse - Analyst*

Just a couple of quick points of clarification, based on some things you said. Going back to Lisa's question on the flu vaccine guidance, could you give us a sense for PSS, which seems to have exited the market, do you know where they acquired their flu vaccine from? Did they buy it from Novartis?

Steve Paladino - *Henry Schein - CFO*

Yes, that I believe they were previously buying from Novartis, yes.

Glen Santangelo - *Credit Suisse - Analyst*

and so in your 20 million dose guidance, do you anticipate that you get all that from Glaxo, or do you anticipate buying from Novartis as well?

Steve Paladino - *Henry Schein - CFO*

Well, our 20 million doses, the primary supplier is GlaxoSmithKline, but we will access product from both Novartis and Sanofi to a lesser extent. Unfortunately we have confidentialities, in the contracts that we have with the manufacturer, so we're precluded from giving specifics on how much are coming from each manufacturer.

Glen Santangelo - *Credit Suisse - Analyst*

But it's fair to say you'll buy from all three, at least something.

Steve Paladino - *Henry Schein - CFO*

Yes.

Glen Santangelo - *Credit Suisse - Analyst*

Moving along to FX in the quarter seems like you got a big boost from FX in the quarter. Do you expect that to continue in the next couple of quarters and could you give us a sense for maybe how much that contributed in the current quarter?

Steve Paladino - *Henry Schein - CFO*

Sure. From a sales perspective, if you look at our earnings release you can see the exact impact of foreign currency. But from an EPS perspective, it was negligible. It was less than $0.01 per share impact on our bottom line. As far as predictions going forward, I'd rather not be in the business of trying to predict whether the dollar is going to strengthen or weaken, but I guess we're not expecting any significant changes, at least, in the short term from what we're hearing from people.

Operator

Your next question is a follow-up from the line of John Kreger.

John Kreger - *William Blair - Analyst*

Thanks. A follow-up question on your medical consolidation. Are you planning on integrating GIV into that, and as part of your plans, will you be changing the sales force makeup or the overall sales force numbers?

Stanley Bergman - *Henry Schein - Chairman, CEO*

GIV will continue to operate as a separate company focused on the vaccine injectable business, although for the last couple of years GIB has had access to the full variety of med-surge products as well as the equipment lines that we offer. GIV does sell the Schein private brand as well. As far as the sales force is concerned, we will continue to grow the sales force on the medical side both in the field and in the telesales area, as we've done in the past. However, we expect far more synergy between the two forces we buy over time the order taking part will move virtually entirely to telesales and electronic sales and our field sales representatives will focus on consultative services, introducing new equipment and other kinds of products as well as providing ways in which at the end of the day the practitioner can run a better business and provide better clinical care.

So it's more on the relationship side, introducing new products, focusing on the more profitable product, but for the regular replenishment products, for that to go through the computer and telesales same way as weave done in the past. Having said that also we would expect the direct marketing to continue to help build up the brand supported by our database marketing, exactly the same formula as we've used so successfully on the dental side, both here in the United States and abroad.

John Kreger - *William Blair - Analyst*

Great. Thanks.

Operator

(OPERATOR INSTRUCTIONS). Your next question is follow up from the line of David Veal.

David Veal - *Morgan Stanley - Analyst*

Hey, Steve, one thing we've heard from other folks with meaningful operations in Germany is that next year we could see a substantial reduction in the corporate tax rate there. Is that something you're tracking, and if so can you remind us how meaningful that might be?

Stanley Bergman - *Henry Schein - Chairman, CEO*

I'm sorry, Dave, your question broke up. If you could repeat it, please.

David Veal - *Morgan Stanley - Analyst*

Sure. One thing we've heard from some of your peers that have operations in Germany is that there may be a meaningful reduction next year in the tax rate there. That something you're tracking, and if so, can you remind us how meaningful that might be for you?

Stanley Bergman - *Henry Schein - Chairman, CEO*

Steven, didn't hear the question.

Steve Paladino - *Henry Schein - CFO*

Meaningful reduction in specifically what, David?

David Veal - *Morgan Stanley - Analyst*

Sorry. In Germany, the reduction in the tax rate there, the corporate tax rate.

Steve Paladino - *Henry Schein - CFO*

Oh, I'm sorry. Sorry to have you ask it it three times.

David Veal - *Morgan Stanley - Analyst*

no problem.

Steve Paladino - *Henry Schein - CFO*

There is a proposed change in tax rate in Germany that many people are expecting the tax rate to be reduced from about 25% tax rate in Germany to about 15%. That still has not occurred, and people are expecting on that to be ratified sometime either in Q2 or Q3. Should that occur, we will have a tax benefit, because it's effectively it reduces our deferred tax -- deferred tax liability on our balance sheet, so there would be a P&L pickup, which could be over $1 million, maybe more. We haven't really studied the specific impact at this point, because we're waiting to see whether it gets ratified or changed, but it's still a proposed measure at this time.

David Veal - *Morgan Stanley - Analyst*

Great, thank you.

Operator

At this time, there are no further questions. Mr. Bergman, do you have any closing remarks?

Stanley Bergman - *Henry Schein - Chairman, CEO*

Yes. Thank you, everyone, for your interest. Thank you for calling in today. As you could tell from both the prepared remarks and responses to the questions asked, we continue to remain bullish about Henry Schein. We think that all of our businesses, dental, North America dental, medical and our physician business in the U.S., as well as our vet business, our international business, and, of course, our technology business are all gaining market share, as we've outlined to you. And we remain optimistic and very bullish.

We think that our strategies are good. We think we're in growth market driven by the baby boomers, the most educated and affluent generation ever. And we believe that our pipeline on the acquisition side remains good, although one cannot take any of that into account until such time as an acquisition is announced. So with that in mind, let me thank you for the call. If you have specific questions, please feel free to call Susan Vassallo at 631-843-5662, and also Neal Goldner at the same -- 845-2820, also 631, or Steve Paladino at 631-843-5915.

We look forward to speaking with you again. I think we're going to some conferences in the near future, and also speak with you during our conference call in about 90 days from now. So I thank you very much for your interest, and speak to you then. Thank you.

Operator

Thank you for participating in today's conference. You may now disconnect.
