

Healthcare Technology & Distribution

Dental KOL call: Spending more w/ HSIC, MA coverage in 2025, & 2024 priorities

Industry Overview

Heartland is growing and optimistic about demand

Earlier this week, we hosted a conference call with Mark Greenstein, Executive VP Chief Growth Officer at Heartland Dental, one of the largest Dental Service Organizations (DSOs) in the U.S. The key themes included Heartland's growth and spending trends, its relationship with Henry Schein, and key priorities over the next few years. Overall, the speaker was optimistic about Heartland's growth prospects (though we see limited takeaways to the dental group given Heartland's growth strategy) as Heartland itself is growing rapidly with an expectation to add 95-100 de novo offices in 2024. Other topics include the impact from the Change outage and how possible changes to MA benefits could impact 2025.

Heartland spending more with HSIC post security incident

Heartland didn't see a material headwind from Henry Schein's cybersecurity incident and our speaker indicated Heartland is spending "greater than 100%" of what it was spending prior to the cybersecurity incident with its largest distribution partner. Henry Schein's relationship with Heartland seems strong and our speaker spoke quite positively about Henry Schein's response to the cybersecurity incident.

Medicare Advantage benefit changes could impact 2025

Medicare Advantage (MA) is a growth driver for Heartland Dental and for the dental industry as a whole. In recent years, MA plans have ramped up supplemental benefits like dental coverage. Our speaker indicated that Heartland is over-indexed to Medicare Advantage given the company operates in desirable retirement destinations like Texas, North/South Carolina, and Florida, among others. Our speaker was positive about the long-term opportunity to grow as MA grew, but noted next year could be a year where plans pare back benefits coverage. In our view, this could potentially be a headwind to dental demand in 2025. Medicare dental expenditure more than tripled from 2019-2022, and is becoming an increasingly important driver of dental demand.

Change outage having an impact; not concerned long term

Our speaker indicated that Heartland was impacted by the Change outage as a large part of its business flows through provider networks. Heartland has been working with Henry Schein and Optum to identify the best path forward. Mr. Greenstein indicated he thought the government may need to step up and provide near-term support so that practices can continue to run. He was not terribly concerned about the long-term impact. Humana has indicated that 20% of its dental claims are dependent on Change.

Key priorities: AI tools and intraoral scanners

Heartland's top relevant priorities for our coverage include the deployment of AI tools and intraoral scanners (IOS). Heartland spoke positively about its VideaHealth/Henry Schein partnership on AI, indicating feedback has been overwhelmingly positive and the tools are available to all of Heartland's dentists. Heartland is rolling out new versions of its IOS rolling out to its dentists now with bigger/brighter screens and improved documentation. Heartland expects to get the scanners out in the next 60-90 days.

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Implant growth has slowed, seeing more trade downs

Our speaker noted that Heartland saw high implant growth in prior years, and that it tapered down from 20%+ to high-single-digits/low-teens in 2023. Moreover, while the speaker was adamant that volumes remained strong (booked out), he indicated that the treatment mix may have shifted, acknowledging the potential for trade downs. For instance, he noted that implant growth had not necessarily been negative to Heartland given patients had lower-cost treatment options (e.g., bridges). While Heartland's overall growth trajectory may differ from the market, commentary around trade downs and a mix-shift away from higher-end procedures is theme that multiple companies in our coverage have pointed to.

Full Call Transcript

Allen Lutz: Thank you. My name is Allen Lutz, Healthcare Analyst at Bank of America. We are excited to have Mark Greenstein, EVP and Chief Growth Officer at Heartland Dental with us. Just a reminder, conflict disclosures relating to individual companies or securities discussed on this call today can be found on the call invitation.

And with that, Mark, thank you so much for joining us.

Mark Greenstein: Good afternoon, everybody. Nice to be with you.

Allen Lutz: To level set, can you provide a brief introduction of Heartland's business and your responsibilities there?

Mark Greenstein: Sure. Heartland is a US Oregon organization that supports dental offices or dental practices. We operate in 39 states across the country. Approximately 1750 practices in our support structure, a little over 2800 doctors. My role encompasses our overall growth and strategy, includes our footprint relationships with payers and our supply chain. We've been in our current form for about 27 years. We're one of the founders of this space and still blessed to be led by our founder and chairman, Dr. Rick Workman and our CEO Pat Bauer.

Allen Lutz: Great. Thanks for that introduction. So I've been reading up on Heartland. It looks like you're building a lot of new practices in 2024, which seems to be pretty different from a lot of your competitors. I'm just curious, can you talk about the growth strategy that Heartland is employing today, and how that looks in 2024? And then maybe the evolution of the growth strategy over the past few years, obviously, interest rates have changed a lot and that's impacted the market growth of some of your competitors, but it doesn't seem to be slowing you down. Just curious what you're seeing in the market, and what your expectations are for 2024?

Mark Greenstein: Sure. So historically, Heartland has always been both a de novo – that's what we call our scratch start builds – a de novo model as well as acquisitions or affiliations is our model, and we've always done both at scale. Strategically, that's always been part of our strategy and we think it's important. There are parts of the country that are very well suited to the de novo model where there's population migration, real opportunities to increase access to care.

The vast majority of our business is general dentistry, family dentistry, two times a year; basic and restorative dentistry. And the de novo model is very well suited to those migratory areas. Historically, the last several years has been Florida and Tennessee and Texas, Arizona, the Carolinas, to name a few, and to really bring dental care to where folks are going to. Typically, when we build the practice, it's because there is not enough dental care in those markets.

The affiliation or acquisition market is more of an opportunistic opportunity for us. We typically target the top 15% or 20% of dentists across the country who are just looking for support. They very often have been leading their practices 20, 25, some 30 years, and they're looking for a new chapter in a support model that allows them to get back to doing more of what they love, which is clinical dentistry, and offload the administrative support services that we've been working at scale for a couple of decades now. So it's no surprise to anybody that the labor environments have been challenging the last several years. Overall inflation has been challenging the last several years. Payer relationships have become ever more complex. And these are areas that have led many doctors to want to continue to affiliate with us.

We expect to do both of those this year in 2024 at the same or higher levels, probably will be higher than last year in 2023. In a press release, we issued the other month we're targeting about 100 de novo's to open this year. And then our investment levels in the affiliation typically should yield somewhere around 70, 75 incremental dental offices. So we're very excited about both of those.



And you are correct that interest rates are very different now than they were a few years ago. I think that just challenges us to be as well run a business and support our practices as best as we can. But at the end of the day, the need for high quality dental care in the country is higher than it's ever been before and we're here to support doctors and their teams as they try to meet that need.

Allen Lutz: That's great background. As you think about patient traffic trends, they've been more or less all over the place over the past six months or so. But as you think about same store changes in January and February, how does that compare versus your initial expectations? Obviously, there was weather issues in January, but I'm just curious, what does patient traffic look like on a same store basis for Heartland versus your expectations heading into the year?

Mark Greenstein: You are right that certain states, Tennessee, for example, had some rough weather in the January timeframe. But overall, say January and February, we're seeing very robust growth in same offices year-over-year compared to 2023. This is a trend that for us started in 2023, and we're continuing to see it where we're finding in our markets, at least, which is a pretty good cross section, we're seeing a lot of demand, especially from older patients, say 50 and above, especially from ages 65 and above. And part of that is also strategically where we've been growing the last several years has been in these net migratory areas, which have bias, that 50 plus population. A lot of folks have moved out of New York into Florida. That's no surprise. And other areas of country, down into Florida, the Carolinas, so we're biased in those markets and we're seeing the results of those strategies come into play here. So our growth has continued for the last 14 months, 15 months to be quite robust.

Allen Lutz: Got it. I was going to ask this question a little bit later, but I'm curious on your payer mix and as it relates to Medicare Advantage, if you have any granularity into that market in particular. I think it's an area where investors are seeing, I guess, an increase in interest around some of the supplemental benefits that are provided by payers and some of the potential changes in 2025 benefits based on kind of where we're at today. Do you have insight into what percent of Heartland's business comes from Medicare Advantage?

Mark Greenstein: I would say it's meaningful. It's certainly strategically, if you think about states I just named, it's a market that we've looked to serve. I mean, at the end of the day, this is over 50% of just 65 plus. This is just ordinary Americans that in the past, they didn't have access to high quality dental insurance unless they bought it themselves. Most of them weren't educated enough to actually go and procure it. And that led to basically, at least in our view, less than ideal consumption of dental benefits or dental services, I should say, oral care services by that population, which has negative impacts on the rest of their whole-body health. We think the Medicare Advantage program and what I think drove payers to want to invest in these specialty or ancillary benefits over the last several years, has been a recognition from this patient group that it's incredibly important, and it's something they need and they want and they desire to have.

So we think that it's a real blessing to our country that the payers have invested and answered that call. I think a few years ago, the government thought about adding and had a very significant debate about adding oral care benefits to Medicare. The payers felt very comfortable that Medicare Advantage would be able to sustain a more cost-effective alternative for Medicare, and they really stepped up to the plate. And we've been building and affiliating with practices nationally to take that opportunity to provide care to this segment. So it's a big and growing part.

As you look ahead, I think everybody pays attention to the MLR results. And I think maybe the benefits that some payers offered were quite extreme and that may normalize a bit. But against the backdrop of clinical need, the time on the hands that these patients have, their ability to self-pay as well, considering where they are in their

station in life, and against an ongoing continuing growth in those opting into Medicare Advantage we think it's here to stay and will continue to grow. So we just think it became a base of competition because the demand is so high for dental benefits on the patients and some payers were maybe doing too high a max and they may either titrate down a bit, or maybe they do a good, better best strategy next year where you get basic, good coverage. And then if you want higher end coverage, like implants or other procedures, you pay a small amount per month and that'll help.

But we think it's here to stay. We think it has to be. We think the country needs it, the country needs oral care. And I think the payer is also increasingly recognizing on the medical side of the MA, and also Medicare, for that matter, that there's a very strong link between good quality oral care, periodontal disease management, cardiovascular disease management, between those issues and taking good care of your oral care. So we think it actually bends the curve; our data suggests that it does. And the best way to administer Medicare Advantage is to make sure there's a really high-quality dental care component of Medicare Advantage.

In our conversations with payers it also continues to suggest that they believe that as well. We've talked to some MA players were actually sending patients proactively into the dentist office is one of the first things they want to do because they have data that suggests if they engage in the dental care, they'll engage in the rest of their medical care at a higher rate. We've had conversations with other payers where their data is suggesting that the more they engage in dental care, the less churn they have in the Medicare Advantage plan. And that we think certainly helps the economics of the payers.

Also, because they visit twice a year typically, some cases up to four times if they're diabetic a year, the dental office is really uniquely positioned because of the frequency of care to impact star ratings, for example, satisfaction and to drive higher levels of engagement and information sharing back to the medical side of the house. So we're actually seeing, even if benefits titrate a bit, we believe overall demand is going to continue to increase in the role that the dentist is going to play at the table with the overall medical care team for these patients is going to continue to have a higher stature.

Allen Lutz: I appreciate all that color. Is there a way to frame the contribution or the percent of Medicare Advantage? It's about 10% of lives. Is that a rough proxy for the percent of patients that are covered by MA or is that in the right ballpark?

Mark Greenstein: We're seeing about half of 65 plus having Medicare Advantage, we're seeing a little north of 90% of those have a high-quality PPO type dental benefit. I don't know if that's what you're asking. In terms of?

Allen Lutz: What percent of the overall mix?

Mark Greenstein: It's going to skew higher than the population simply because we've been building and buying in net migratory areas for many years now in anticipation of the growth of this segment. And also recognizing that from a dental office perspective or dental provider perspective, these are folks who have got time to actually engage in their oral care. So we're going to skew probably higher than the national average just for those reasons.

Allen Lutz: Okay, that makes sense. Shifting gears, a little bit to what are some of the top trends and themes that you're thinking about in 2024 when it comes to growing these dental offices, making them at the forefront of technology and in places where patients want to go, what are the different areas of investment that you would flag in 2024?

Mark Greenstein: Always at the top of the list is just continued ongoing clinical operations and leadership training for our doctors and teams. Heartland Dental has always led with probably the largest oral care, educational capabilities. We're vertically

integrated. Heartland Dental University is what we call our education and it covers clinical operations and leadership skills. I think that's always at the top and it's a never ending journey because we all could use education all the time, so that's at the top of the list.

Beyond that, on the technical front, we've got two very large initiatives going on right now with a third one ramping up just behind it. The first is, we've deployed AI tools into the clinical setting and the office operational setting, and we're getting extremely good results with this. Doctors, whether they're younger, or tenured in their career, or 30 plus years are really finding value in the clinical support they're getting from the AI tools and the diversity of conditions that helps them visualize.

Obviously, the doctor is always in charge of all that, but we're finding as well that the AI tools, even for doctors who don't want to use it on a clinical basis, so to speak, to inform their own eyes, it becomes a very helpful positive image communications tool with a patient. We've all been there, a doctor sticks up an X-ray and says, hey, can't you see you've got this condition. And now there's actually a box around that and the doctor can walk you through and explain. And so it creates a positive communications tool with the patient, which leads to increased treatment plan acceptance, which is super helpful.

But we feel really good about where that's going and we're roughly 90 days in, and we use a product called VideaHealth AI with our partners, Henry Schein. And we're just pleased as punch is probably how I'd put it. I just came back from a meeting with our top 200 or 300 doctors and the number of doctors of all ages who are just singing the praises of how this has helped them is just great. And we've seen this on the medical side and MRI reading and other areas, there's just a big opportunity here for AI and in all forms of healthcare.

Operationally, the AI tool brings productivity enhancements across the revenue cycle in the practice, and Gen AI is taking hold as well. And so we're very excited about the innovations still yet to come from that technology as we work with our partners at Henry Schein and VideaHealth to continue to enhance it.

Secondly is a new product called Curodont, from a company called Vardis, which I'm not a doctor, so I can't get too far over my skis here, but it actually does some form of remineralisation or regeneration of tooth. You put it on a very early lesion, and it completely arrests and repairs the tooth from basically preventing a doctor from having to pick up a drill. Anytime a doctor doesn't have to pick up a drill, that's a great thing if the patient can get the same clinical outcome. Your own teeth are the best you'll ever have. So we're very excited by how that is really taking hold across our hygiene and doctor chairs and really having a positive impact on our patients lives. A very low cost, very quick procedure. It's just almost similar in nature to how sealants used to go on, but at a much higher impact.

And the third would be Heartland was the leader in the deployment of digital intraoral scanners. Several years ago, we've transformed I think our practice, certainly dentistry in our practices over the last several years, getting rid of Goop for example, or reposition material which creates such discomfort for patients. And just once you go digital, why would you ever go back to analogue? You get such a better picture of the tooth for the manufacture of prosthetics, like crowns or dentures. And we've got new versions of the scanner rolling out across our footprint now, which has got bigger, brighter screens for having those positive image conversations with patients. And additional features for taking intraoral images, improving documentation and again, communications with patients. And then it's got features for Invisalign, which has been just a tremendous boon to our practices over the years and it's just such a great product. It allows patients to see how their teeth could look in their own face and it's very exciting, kind of cool technology. There are faster and bigger screens. We think anything that allows, this has always been a challenge in dentistry, anything that allows the doctors to have better communications with the patient, because you could never see the inside your mouth, so

that screen image of what's going on inside your mouth and your oral care is just so important to that communication. And anything that allows them and the team to do that is a real boon. So we're super excited about getting scanners out here in the next 60 to 90 days.

Allen Lutz: That's great. I want to go back to the AI initiative you mentioned with VideaHealth and Henry Schein. I actually had the opportunity to see it earlier this year at my dentist and it was really exciting to kind of watch from the perspective of a patient. I guess a couple questions here. Is this available to all of Heartland dentists? What is the use rate among dentists that are using it? And then how do you measure success of this type of partnership?

Mark Greenstein: So first answer is, yes, it's available to all Heartland dentists, all Heartland supported dentists. The second question is how do we measure utilization? We've kind of created our own measures. It's really a great question. Anytime you deploy something, how do you measure it? We've just got a phenomenal team of super smart people that come up with proxy measures and we feel pretty good that this is getting it. It's basically how often across the eligible patients that have x-rays taken, or x-rays available, does the tool get used. And then we use the tool also before the patient ever comes in because we can go back through all their old x-rays. And so a morning huddle situation allows the doctor and the team to become acquainted with the patient and their needs, and make sure they're all aligned on the conversations they want to have with their patients on their clinical care. So I think we're tracking all of that and it allows us for every office to see where they are in their journey. Anytime you deploy something new to anybody, there's a ramp, and we've just started this journey, so we're now fully deployed and we're monitoring where usage is still say nascent or emerging and seeing what additional support or questions the doctors and the teams have.

We're just going through that. I'd say, again, the reception is very good. We don't really have to do much on this in that the doctors who are using it, we have communication channels for all of our doctors and teams to talk to each other. So they're the flywheel of them sharing their successes and where they're seeing value and how each of them are using it differently and sharing the verbiage of the conversations they're having with their patients. And this is the ecosystem that we nurture and support, and it just like everything, it takes time. And then as new folks come join our organization, they get educated and ramped up as well. I think I've covered all three, but if I missed anything, let me know.

Allen Lutz: No, that's very helpful. And then you mentioned intraoral scanners (IOS). I want to think more high level. As you think about your equipment budget at Heartland for 2024, can you talk about how that's changing on a same store basis versus 2023, so excluding any of the acquisitions?

Mark Greenstein: Not changing.

Allen Lutz: So flat?

Mark Greenstein: We have a standard that's not really changing. We have a standard, we maintain all of our offices at. Certainly all offices, some of our older offices need paint, carpet, fixtures, chair replacements, whatever; we're just continuing to invest in maintaining and making sure offices have what they need, so that the doctors and their teams can deliver high quality dental care.

Allen Lutz: When it comes to things like imaging, IOS, chairside milling, how much cyclicity is there in equipment purchasing or is it more around upgrade cycles? And are there any product areas where you're seeing particular strength or weakness right now?

Mark Greenstein: Well, for Heartland, and I can't speak to others, but for Heartland, we have a standard set of equipment that every dental practice should have. And when the

various pieces of equipment reach end of life or the repair costs start to exceed what makes sense, just like your car, then we replace the equipment.

Now, there are certain doctors that like to do different kinds of procedures. Some doctors really enjoy using a laser and we get them a laser if they make it part of their standard of care. Doctors have 100% autonomy for all clinical decisions. So if that's how they want to practice, we meet them where they are. And our job with our partners of Henry Schein is to maintain that equipment as best we can. That's kind of how we look at it.

We don't think of it cyclically, to be honest with you. Or if we do, it's whatever cycle the office is on. If it's a 20-year old office, we're planning to replace chairs, because that's pretty much the lifecycle of the chair. So it's really whatever is needed by the doctor to perform the dentistry they want to perform.

Things like chair side milling, we've never seen demand for it, to be honest. At our size, you get a little bit of everything. So we have doctors who want to incorporate that and do incorporate that in their practice, but it's incredibly, incredibly small. So, that's not an area we have a lot of expertise on other than supporting that very small number of doctors that have it as part of their practice.

I don't know if there was any other specific pieces of equipment you called out. But Cone-beam computed tomography systems (CBCT's), if our supported doctors are having implant practices, then we get them the CBCT. I think we have probably 350, 400 of those throughout the footprint. So it's really, again, same kind of concept as the laser. If it's part of the dentistry the doctor does, and it's something they're passionate about and interested in continuing to have as part of their practices, then we give them that equipment. If we go into an office and a doctor doesn't have implants as part of their practice, but they have a CBCT, maybe they took over an office for somebody else, then we can move to CBCT. That's the beauty of our footprint and kind of density that we have in different parts is it's not that hard to move equipment around if we need to. I mean, the idea being doctors need to have what they have.

Allen Lutz: That's great. You mentioned 350 to 400 CBCT's, what penetration rate would you suggest that that is within the entire Heartland base? Is that mostly penetrated at this point, or do you think there's more opportunity to expand the amount?

Mark Greenstein: The young doctors coming out of dental school, implants is one of the things they want to do the most of; implants and Invisalign. Invisalign typically train all doctors very early, the first month or two, when they get here if they don't have it. There's a real demand for that. It's a wonderful service. If you help a patient improve their smile, you've got a patient for life. We're a lifetime care business. So we're not episodic. Basically for all of us is go there twice a year, you spend your life or your kids go. I mean, we've got hundreds and hundreds of doctors who are on their third generation of patients. It's just a beautiful thing, and that's what we're about.

In the case of something like a CBCT, these young doctors come in from dental school, as they ramp and they're passionate, some doctors think they want to do implants and then they go and they learn it and they're like, I'd rather refer that out. That's fine, too. Clinical is 100% in control of the doctor. But if they are passionate about it and continue and they have to have a CBCT in their office, then we procure one for them.

Allen Lutz: So you expect that 350 to 400 number to continue climbing?

Mark Greenstein: We do, we do. We see similar dynamics to the rest of the marketplace that implant growth rates have started to taper a bit. I don't necessarily know that that's translating all that much to demand kind of lowering. There's some demand reduction. I don't know what that's doing offhand to our CBCT demand. But I'd say thematically, as doctors do implants, we'll get him a CBCT.

Allen Lutz: Okay. Let's move to demand for dental implants. How has the end market changed, if at all, over the past few months? And then as we think about where the economy is, can you talk about the demand between premium and value? Is there a shift going on that's more noticeable than it was in 2023? Just curious what you're seeing in there and kind of tease out the comment you made around implant growth starting to taper. When did it start to taper and what are you seeing there?

Mark Greenstein: We noticed a tapering pretty early in 2023. It was kind of a 20 plus percent kind of thing and it's probably in the highest single digits, low teens kind of thing now. But I would say this about implants, in the US at least, it's definitely a pull from the patients. So patients want it, and that's much better than when you have a doctor trying to push something on a patient. The patient comes in and says, "Well, I'd rather not have a bridge there. I had a tooth there, can we put a tooth there?" And I think the US has still got a long way to go to start to look like say Europe or Asia where implants are far more than norm. So I expect it to continue to have above trend growth, just subject to economics, because it is an expensive procedure and it's often not covered by the payer plan. So that has a higher out of pocket. Or you do two implants and you've exceeded your maximum for dental insurance. So it has some economic sensitivity to it.

That type of set, I should say, I think the demand continues to grow, because we see that patient demand. And we're obviously continuing to see demand from young doctors coming out of dental school and all the way up the tenure ranks to continue to want to provide that service to their patients.

Allen Lutz: And any thoughts around premium versus value? Is there a structural shift going on? Is it incremental? Do you see that stabilizing? Just curious, is any of it cyclical?

Mark Greenstein: It's interesting, up until about two years ago, I'd never heard the term before, which I don't know what that means, but I've been at Heartland for nine years. We just view it as an implant and a system, and if our doctors are trying to meet the needs of their patients. So in our formulary, our doctors have chosen two brands that they are committed to. I think one of them is called the Value and one of them is called a Premium. I don't think 90% of our doctors have a clue as to which is which or how to differentiate, which may be the answer to your question, or you can read into that. But we use Implant Direct, which is an Envista product, and we've used that for years with a lot of great success. And we've had BioHorizons, which is owned by Henry Schein and that's had great and growing success. And doctors seem to anchor on one or both of those, and both of those manufacturers give us enormous amounts of education and support and the doctors seem to be very happy with those two. And the doctors seem to be getting what they want clinically. And economically, we're certainly happy with both of those partners.

Allen Lutz: Great. And I want to move on to Clear Aligners. I guess as you think about your plan heading into 2024, I guess we'll start with the first quarter, is the first quarter, is demand coming in where you expected? Is it better? Is it worse? Anything to call out?

Mark Greenstein: Nothing that I can call out. We've had Invisalign for many years. Our doctors just rave about it; their patients rave about it. The technology and the innovation that that company, Align Technology does is, I think, the best in all of dentistry, to be honest with you. And you look at their innovation over the years and their pipeline, and our doctors typically get very excited. They feel like they're really – remember, we're doing very high volumes with general dentists, not orthodontists. We have some orthodontists, but 97% of Heartland is general dentistry, general dentists. So certainly orthodontist use the full spectrum of whatever a specialist would use, but we have maybe 30 orthodontists in all of Heartland compared to 2800 general dentists. And those general dentists that are using Invisalign, they just think it's the best, by far. I was just with a bunch of them and a lot of them, especially those that come to us through affiliation have tried all sorts of products out there. They're so grateful, some of them

choose to join Heartland just for the Invisalign support. And we've done a couple of hundred thousand cases over the years at this point, and with just tremendous outcomes, and those patients are just wonderfully loyal to the practices and to the doctors, the dentists that treated them.

So it's really a part of what we do. It's what we call everyday dentistry. Our hygienists and doctors talk about it with the patients and as they're ready, they're there to serve them. The scanner, obviously, it's part and parcel with that.

Allen Lutz: Can you talk about the Clear Aligner trends in January and February? How quickly is that business growing?

Mark Greenstein: Well, we're still seeing some growth. I'm not going to go into any numbers. We've been at this, I think our company is roughly the same age as Invisalign. We've seen cycles going up and down all the time. For us, malocclusion conversations are about oral health and it's part of the conversations our doctors have with their patients every day.

In times of economic strength, it's better than in times of economic softness. I'd say with interest rates where they are, to your earlier point, patient financing is a key part of this. Being able to meet the patients where they are in terms of providing ability to pay for the procedure, since it is an expensive procedure relative to other parts of dentistry, I think it's super important that it's an area that we're working on to help overcome any short-term barriers. But I think in terms of patient demand, it's as high as we've ever seen it. It's just helping patients with probably bit of affordability in the current environment in terms of getting it, but our doctors, again, this is a lifetime care business. So if it's not today, then it'll be at some point in the future, when we can hopefully continue to improve on financing opportunities for the patients to help them afford the care.

Allen Lutz: Okay. Got it. On the consumables part of the business, we've heard there's been a lack of innovation on the consumable side for a handful of years and that's allowed some private label penetration to maybe put some pressure on broader pricing. Can you talk about that trend? Is that something that you're seeing? And then how important is innovation versus price on the consumable side?

Mark Greenstein: In Heartland, first, all the solutions that are in our formulary are chosen by our doctors. We have clinical councils and doctor reviews, and then doctors support each other in terms of how to use the various products. So our job at Heartland is to find the doctors the products they want at the best possible price.

Our doctors are running their practices. And we often find, and have in the last three to four years have found an increasing number of private label products that have been enthusiastically reviewed, tested and adopted by our doctors. And so that's become a larger and growing part of the formulary because there's real pull from doctors for those products. We don't make those. They're actively pulling on them. And so we're encouraging our partners like Henry Schein to continue to innovate and create more and more private label, because that's where the demand is from the doctors.

Allen Lutz: Okay, great.

Mark Greenstein: I don't think that's different than medicine. If I just build on that, I don't think that's different than medicine. I see a trajectory very similar to the medicine trajectory, the rest of healthcare.

Allen Lutz: Okay. We started this call maybe seven or eight minutes late, so we're going to go a little bit beyond the hour to leave some questions, if there are any. One last question for me before I open it up to Q&A, there's obviously been the Change [Change Healthcare Inc.] outage which has impacted pharmacies and medical practices. Humana said that more than 20% of its dental claims are dependent on Change. Has Heartland

seen an impact as it relates to the Change outage? I'm curious if there's anything that you've seen in your opinion?

Mark Greenstein: No. I mean, we're a large provider, a big chunk of our businesses is through the provider networks. We've been working very closely with our colleagues at Henry Schein, and our partners at all of the payers on how to navigate this. I would say that our teams have been working nearly nonstop since, I think it was Thursday that it became, the 21st of February seems to be sticking in my head as a key date, and then we've been working very closely with the folks at Optum and all of the other payers. I was very pleased to see yesterday the Secretary of Health and Human Services issued a statement. And basically government support, and I think just like in COVID, folks will have to step up and provide needed support, so our doctors can continue to make sure that they're taking care of all the patients that need their help. We expect the industry to do what the right thing is here and make sure that providers have what they need to continue with things like payments, and payroll and expenses, and all of that.

I'm not terribly concerned here. I think COVID was probably somewhat of a good prep for all of this a few years ago, and these are all great companies and I think it's not lost on anybody that at the end of the day, this was an attack on the healthcare infrastructure. And we're also sympathetic for those that have been working their rear ends off to fix it. We're all victims here; the whole country is a big victim. And I'm really grateful for everybody at all of the different parts of the value chain, and payer chain and cycle that are really working 24x7 to both fix all the plumbing, because it's complicated. It's a very complicated set of plumbing. And then make sure our doctors get what they need to continue to take care of their patients.

Allen Lutz: Great. Operator, can you check to see if there are any questions on the line?

Moderator: Sure. Thank you. If you would like to ask a question, please press star followed by one on your telephone keypad. When it is your turn to speak, you will hear 'Your line is now open' and may proceed with your question.

Allen Lutz: While we wait to see if there are any questions that come in the queue, Mark, toward the end of last year, Henry Schein obviously suffered that cyber security incident. Do you feel you're back 100% with Henry Schein? Can you talk about what happened immediately after the cybersecurity incident? Did that impact any parts of Heartland? And then, like I said, do you feel that you're back to 100% with Henry Schein today?

Mark Greenstein: We are at 100% with Henry Schein today, and we've grown. So, technically, above 100%. When the event happened, they were wildly transparent in their communications. We had multiple times of day calls and we were able to make sure that our doctors, and we typically have some inventory and our practices, so I don't think we missed a beat in terms of making sure offices had the supply chain items they needed to conduct the dentistry that was on the schedule. So at least from our lens, we felt very good about how we were able to continue.

It wasn't easy, it took a lot of hard work. And we feel delighted they got back. It's a little bit different for Heartland. We have our own ordering platform that connects into Henry Schein directly. So I can't really talk about how the rest of the sector interfaces with them because I honestly don't know. So I just say we have a product called Dentira, we've had for several years now, which has been a very effective ordering platform for our doctors and their teams. And so that plumbing was able to get connected somehow to whatever it needed to. And then as soon as the rest of the fulfillment infrastructure at Henry Schein became available, including some manual processing, good news was they had the product in the warehouses, so we just had to get them what we needed and where, and we were able to get back online.

Allen Lutz: Operator, are there any questions on the line?

Moderator: Yes, we currently have one question. I'm opening the line now. And you will hear 'Your line is now open' and may proceed with your question.

Participant: Hey, Mark, question from a BofA client here. So I guess it's probably not lost on anyone on this call that the trends in the dental market have been a bit weaker than I think what most of us would characterize as normal in 2023. And I think, based on what some of the companies are saying, also perhaps in 2024. I guess the simplest explanation is that this is just driven by broader macroeconomic issues. But you look at some of the companies that we cover in this space, are there any other drivers that you would maybe highlight that could explain some of the weakness we've seen?

Mark Greenstein: Well, I had this discussion with an analyst at another banking firm, because he had shared a report similar to what you articulated, and we're not seeing it. So, good old fashioned general dentistry is alive and well. Our volumes are up, they're up meaningfully. They've been up on a sustained basis.

Sure, interest rates potentially put a slowdown on capital equipment unless where it's necessary, but from a point of view of doing dentistry, buying consumables, buying crowns from dental labs, drill bits and everything else, I can't comment on the rest of market, but I can tell you at Heartland, we haven't seen that scenario at all.

Participant: But you have seen?

Mark Greenstein: So I can't answer your question, I don't know why.

Participant: You have seen some of the trade down on the implants. I just want to make sure, I think we talked a little bit about that on another call.

Mark Greenstein: We've seen some mix shift. But in terms of the total volume of dentistry that we're doing, we're booked out and demand, it's potentially a mix shift. We're doing more dentistry on more patients. How's that for an answer? I think that's the way I would answer the question.

Participant: Thanks. That's helpful feedback.

Mark Greenstein: By the way, my translation on all of this is the demand is there. So whether or not organizations are able to meet the demand given where they're at in their own capital structure or interest rates is a separate issue than if the demand is there. When I look at our schedules and I look at the amount of people that are looking for care for their oral health, it's higher than ever. And I think that point doesn't get articulated because the lens is always on these public companies, but I kid you not, the demand for dentistry in the United States is more than alive and well. And the need for it, especially in the context of overall health, is higher than ever, at least in the nine years I've been engaged in this business.

Allen Lutz: Mark, we had a question come in about the iTero Lumina. How much uptake? What's the level of excitement there? And is that taking share in the IOS space?

Mark Greenstein: I don't know if it's taking share. We've always been an iTero shop. We have a couple thousand iTero's in our footprint. And the scanners I was talking about before are all replacements for older versions of the iTero with the 5D Series. Also, we're adding second and third scanners in some of our higher volume offices. So the Lumina is a great. It's another reason why our doctors just love partnering with Align. It's a great innovation. I'm sure they all would love it. We are testing it, we're evaluating it. We love what we see. And I have no doubt that over time, we'll be deploying Lumina, Lumina 1. Right now we're focused on getting all of our offices, the older model scanners out. They're called Element 2's. Make sure those get out and get the 5Ds and get all the features of the 5D, which are quite significant, trained and deployed in our hygiene and doctor chairs. And then we'll take a hard look at the Lumina.

The good news about the Lumina, it's literally just a plug and play. Anybody can do it. It just plugs in a different wand. Send back the old one. So when the time is right, we'll take a hard look at that. But we're super excited by the 5D's that we're rolling out now.

Allen Lutz: Great. Operator, are there any more questions on the line?

Moderator: We have no further questions in the queue.

Allen Lutz: Great. So we are at the top of the hour, so we will end it there. I want to thank everyone for joining us and thank you, Mark, for all the great insights. If you have any questions, feel free to reach out. Thank you very much.

Mark Greenstein: Thanks, everybody. Take care.



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