

HENRY SCHEIN INC  
Form 10-Q  
August 06, 2018

**UNITED STATES**

SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2018

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number:** 0-27078

HENRY SCHEIN, INC.

(Exact name of registrant as specified in its charter)

Delaware 11-3136595  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

135 Duryea Road

**Melville, New York**

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(Address of principal executive offices)

11747

(Zip Code)

(631) 843-5500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

As of July 30, 2018, there were 153,111,471 shares of the registrant's common stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

HENRY SCHEIN, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

ASSETS

Current assets:

Cash and cash equivalents

Accounts receivable, net of reserves of \$53,609 and \$53,832

Inventories, net

Prepaid expenses and other

Total current assets

Property and equipment, net

Goodwill

Other intangibles, net

Investments and other

Total assets

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable

Bank credit lines

Current maturities of long-term debt

Accrued expenses:

Payroll and related

Taxes

Other

Total current liabilities

Long-term debt	.....
Deferred income taxes	.....
Other liabilities	.....
Total liabilities	.....
Redeemable noncontrolling interests	.....
Commitments and contingencies	.....
Stockholders' equity:	
Preferred stock, \$.01 par value, 1,000,000 shares authorized, none outstanding	.....
Common stock, \$.01 par value, 480,000,000 shares authorized, 153,231,669 outstanding on June 30, 2018 and 240,000,000 shares authorized, 153,690,146 outstanding on December 30, 2017	.....
Retained earnings	.....
Accumulated other comprehensive loss	.....
Total Henry Schein, Inc. stockholders' equity	.....
Noncontrolling interests	.....
Total stockholders' equity	.....
Total liabilities, redeemable noncontrolling interests and stockholders' equity	.....

See accompanying notes.



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HENRY SCHEIN, INC.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

(unaudited)

	THREE MONTHS ENDING JUNE 30, 2014
Net sales .....	\$3,211,000
Cost of sales .....	2,290,000
Gross profit .....	921,000
Operating expenses:	
Selling, general and administrative .....	670,000
Transaction costs related to Animal Health spin-off.....	7,000
Restructuring costs .....	14,000
Operating income .....	200,000
Other income (expense):	
Interest income .....	5,000
Interest expense .....	(1,000)
Other, net .....	(1,000)
Income before taxes and equity in earnings of affiliates .....	181,000
Income taxes .....	(4,000)
Equity in earnings of affiliates .....	5,000
Net income .....	141,000
Less: Net income attributable to noncontrolling interests .....	(6,000)
Net income attributable to Henry Schein, Inc. ....	\$135,000

Earnings per share attributable to Henry Schein, Inc.:

Basic .....	\$0.
Diluted .....	\$0.

Weighted-average common shares outstanding:

Basic .....	15
Diluted .....	15

See accompanying notes.

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HENRY SCHEIN, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Thru Jun 201
Net income .....	\$14
Other comprehensive income (loss), net of tax:	
Foreign currency translation gain (loss).....	(1
Unrealized gain (loss) from foreign currency hedging activities .....	1,
Unrealized investment loss .....	(1
Pension adjustment gain (loss).....	96
Other comprehensive income (loss), net of tax .....	(1
Comprehensive income .....	20
Comprehensive income attributable to noncontrolling interests:	
Net income .....	(6
Foreign currency translation gain (loss).....	13
Comprehensive income attributable to noncontrolling interests .....	7,
Comprehensive income attributable to Henry Schein, Inc. .....	\$27

See accompanying notes.



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HENRY SCHEIN, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, except share and per share data)

(unaudited)

Balance, December 30, 2017 .....	
Cumulative impact of adopting new accounting standards (Note 2).....	
Net income (excluding \$14,371 attributable to Redeemable noncontrolling interests) .....	
Foreign currency translation loss (excluding loss of \$11,535 attributable to Redeemable noncontrolling interests) .....	
Unrealized gain from foreign currency hedging activities, net of tax of \$432.....	
Unrealized investment loss, net of tax of \$0.....	
Pension adjustment gain, including tax of \$370.....	
Dividends paid .....	
Other adjustments .....	
Purchase of noncontrolling interests.....	
Change in fair value of redeemable securities .....	
Initial noncontrolling interests and adjustments related to business acquisitions.....	
Repurchase and retirement of common stock .....	
Stock issued upon exercise of stock options .....	
Stock-based compensation expense .....	
Shares withheld for payroll taxes .....	
Settlement of stock-based compensation awards .....	
Deferred tax benefit arising from acquisition of noncontrolling interest in partnership.....	
Transfer of charges in excess of capital.....	
Balance, June 30, 2018 .....	

See accompanying notes.

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HENRY SCHEIN, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

Cash flows from operating activities:

Net income .....

Adjustments to reconcile net income to net cash provided by operating activities:

    Depreciation and amortization .....

    Stock-based compensation expense .....

    Provision for losses on trade and other accounts receivable .....

    Provision for (benefit from) deferred income taxes .....

    Equity in earnings of affiliates .....

    Distributions from equity affiliates .....

    Changes in unrecognized tax benefits .....

    Other .....

Changes in operating assets and liabilities, net of acquisitions:

    Accounts receivable .....

    Inventories .....

    Other current assets .....

    Accounts payable and accrued expenses .....

Net cash provided by operating activities .....

Cash flows from investing activities:

Purchases of fixed assets .....

Payments for equity investments and business acquisitions, net of cash acquired .....

Other .....

Net cash used in investing activities .....

Cash flows from financing activities:

Proceeds from bank borrowings	.....
Proceeds from issuance of long-term debt	.....
Debt issuance costs	.....
Principal payments for long-term debt	.....
Proceeds from issuance of stock upon exercise of stock options	.....
Payments for repurchases of common stock	.....
Payments for taxes related to shares withheld for employee taxes	.....
Distributions to noncontrolling stockholders	.....
Acquisitions of noncontrolling interests in subsidiaries	.....
Net cash provided by (used in) financing activities	.....
Effect of exchange rate changes on cash and cash equivalents	.....
Net change in cash and cash equivalents	.....
Cash and cash equivalents, beginning of period	.....
Cash and cash equivalents, end of period	.....

See accompanying notes.

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**HENRY SCHEIN, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

**(unaudited)**

**Note 1 – Basis of Presentation**

Our consolidated financial statements include our accounts, as well as those of our wholly owned and majority owned subsidiaries. Certain prior period amounts have been reclassified to conform to the current period presentation.

Our accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnote disclosures required by U.S. GAAP for complete financial statements.

The consolidated financial statements reflect all adjustments considered necessary for a fair presentation of the consolidated results of operations and financial position for the interim periods presented. All such adjustments are of a normal recurring nature. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 30, 2017.

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The results of operations for the six months ended June 30, 2018 are not necessarily indicative of the results to be expected for any other interim period or for the year ending December 29, 2018.

On August 16, 2017, we announced that our Board of Directors approved a 2-for-1 split of our common stock. Each Henry Schein, Inc. stockholder of record at the close of business on September 1, 2017 received a dividend of one additional share for every share held. Trading began on a split-adjusted basis on September 15, 2017 and has been retroactively reflected for all periods presented in this Form 10-Q. As a result of the stock split, we increased our authorized common shares from 240,000,000 to 480,000,000, effective May 31, 2018.



**Note 2 -Accounting Pronouncements Adopted and Critical Accounting Policies and Estimates**

**Accounting Pronouncements Adopted**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers”, Accounting Standards Codification (“ASC”) 606 (“Topic 606”). We adopted the provisions of this standard as of December 31, 2017, on a modified retrospective basis. We applied the requirements of the new standard only to contracts that were not completed as of the adoption date. We recorded an immaterial adjustment to the opening balance of retained earnings for the adoption of Topic 606. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The impact of the new standard on our consolidated statements of income, which we expect to be immaterial on an ongoing basis, is primarily related to software sales and sales commissions and is described as follows:

**Software Sales**

For software licenses sold together with post contract support (PCS), we previously deferred software revenue if it did not have vendor-specific evidence of fair value of the PCS. Under Topic 606, the concept of vendor-specific objective evidence is eliminated and there are no cases where revenue is deferred due to a lack of standalone selling price. In addition, we previously recognized revenue from term licenses ratably over the contract term. Under Topic 606, such licenses represent a right to use intellectual property and therefore require

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**HENRY SCHEIN, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

**(unaudited)**

upfront recognition. Furthermore, certain upfront fees related to service arrangements were previously deferred and recognized over the estimated customer life. Under Topic 606, the period over which we will recognize these fees is reduced, as the upfront fee represents additional contract price which will be allocated to the performance obligations in the contract and recognized as those performance obligations are satisfied, rather than being amortized over the estimated customer life. Based on the aforementioned changes, such software revenue will be recognized sooner than under the previous revenue recognition standard.

*Sales Commissions*

We previously recognized sales commissions as an expense when incurred. Under Topic 606, we defer such sales commissions as costs to obtain a contract when the costs are incremental and expected to be recovered. Deferred sales commissions are amortized over the estimated customer relationship period. We apply the practical expedient to expense, as incurred, commissions with an expected amortization period of one year or less.

The impact of adoption on our consolidated balance sheet and income statement was as follows:

	As of June 30, 2019
Balance Sheet	As Reported
Assets:	
Prepaid expenses and other .....	\$459,320
Investments and other .....	510,453