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 25, 2022

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 incorporation or organization)	**(I.R.S. Employer Identification No.)**

135 Duryea Road
Melville, New York
(Address of principal executive offices)
11747
(Zip Code)

(631) 843-5500
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $.01 per share	HSIC	The Nasdaq Global Select Market

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 every Interactive Data File required to be submitted 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 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 ☐	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 13(a) of the Exchange Act. ☐

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 25, 2022, there were 136,114,744 shares of the registrant's common stock outstanding.

HENRY SCHEIN, INC.
INDEX

PART I. FINANCIAL INFORMATION

		Page
ITEM 1.	**Condensed Consolidated Financial Statements:**	
	Condensed Balance Sheets as of June 25, 2022 and December 25, 2021	3
	Condensed Statements of Income for the three and six months ended June 25, 2022 and June 26, 2021	4
	Condensed Statements of Comprehensive Income for the three and six months ended June 25, 2022 and June 26, 2021	5
	Condensed Statement of Changes in Stockholders' Equity for the three months ended June 25, 2022 and June 26, 2021	6
	Condensed Statement of Changes in Stockholders' Equity for the six months ended June 25, 2022 and June 26, 2021	7
	Condensed Statements of Cash Flows for the six months ended June 25, 2022 and June 26, 2021	8
	Notes to Condensed Consolidated Financial Statements	9
	Note 1 – Basis of Presentation	9
	Note 2 – Critical Accounting Policies, Accounting Pronouncements Adopted and Recently Issued Accounting Standards	10
	Note 3 – Revenue from Contracts with Customers	11
	Note 4 – Segment Data	12
	Note 5 – Business Acquisitions	13
	Note 6 – Fair Value Measurements	15
	Note 7 – Debt	17
	Note 8 – Income Taxes	19
	Note 9 – Legal Proceedings	20
	Note 10 – Stock-Based Compensation	21
	Note 11 – Redeemable Noncontrolling Interests	24
	Note 12 – Comprehensive Income	24
	Note 13 – Plans of Restructuring	26
	Note 14 – Earnings Per Share	26
	Note 15 – Supplemental Cash Flow Information	27
	Note 16 – Related Party Transactions	27
ITEM 2.	**Management's Discussion and Analysis of Financial Condition and Results of Operations**	28
ITEM 3.	**Quantitative and Qualitative Disclosures About Market Risk**	43
ITEM 4.	**Controls and Procedures**	43

PART II. OTHER INFORMATION

ITEM 1.	**Legal Proceedings**	44
ITEM 1A.	**Risk Factors**	44
ITEM 2.	**Unregistered Sales of Equity Securities and Use of Proceeds**	44
ITEM 5.	**Other Information**	44
ITEM 6.	**Exhibits**	45
	Signature	46

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
HENRY SCHEIN, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except share data)

	June 25, 2022	December 25, 2021
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 108	$ 118
Accounts receivable, net of reserves of $63 and $67	1,409	1,452
Inventories, net	1,823	1,861
Prepaid expenses and other	449	413
Total current assets	3,789	3,844
Property and equipment, net	356	366
Operating lease right-of-use assets	327	325
Goodwill	2,833	2,854
Other intangibles, net	603	668
Investments and other	416	424
Total assets	$ 8,324	$ 8,481
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 901	$ 1,054
Bank credit lines	85	51
Current maturities of long-term debt	4	11
Operating lease liabilities	74	76
Accrued expenses:		
Payroll and related	328	385
Taxes	124	137
Other	560	593
Total current liabilities	2,076	2,307
Long-term debt	769	811
Deferred income taxes	33	42
Operating lease liabilities	276	268
Other liabilities	357	377
Total liabilities	3,511	3,805
Redeemable noncontrolling interests	586	613
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 1,000,000 shares authorized, none outstanding	-	-
Common stock, $0.01 par value, 480,000,000 shares authorized, 136,439,560 outstanding on June 25, 2022 and 137,145,558 outstanding on December 25, 2021	1	1
Additional paid-in capital	-	-
Retained earnings	3,834	3,595
Accumulated other comprehensive loss	(241)	(171)
Total Henry Schein, Inc. stockholders' equity	3,594	3,425
Noncontrolling interests	633	638
Total stockholders' equity	4,227	4,063
Total liabilities, redeemable noncontrolling interests and stockholders' equity	$ 8,324	$ 8,481

See accompanying notes.

HENRY SCHEIN, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited, in millions, except share and per share data)

	Three Months Ended		Six Months Ended	
	June 25, 2022	June 26, 2021	June 25, 2022	June 26, 2021
Net sales	$ 3,030	$ 2,967	$ 6,209	$ 5,892
Cost of sales	2,085	2,076	4,291	4,110
Gross profit	945	891	1,918	1,782
Operating expenses:				
Selling, general and administrative	680	635	1,362	1,249
Depreciation and amortization	45	45	92	89
Restructuring costs	-	1	-	4
Operating income	220	210	464	440
Other income (expense):				
Interest income	3	1	5	3
Interest expense	(9)	(7)	(16)	(13)
Other, net	-	1	-	1
Income before taxes, equity in earnings of affiliates and noncontrolling interests	214	205	453	431
Income taxes	(52)	(47)	(109)	(104)
Equity in earnings of affiliates	5	6	9	12
Net income	167	164	353	339
Less: Net income attributable to noncontrolling interests	(7)	(8)	(12)	(17)
Net income attributable to Henry Schein, Inc.	$ 160	$ 156	$ 341	$ 322
Earnings per share attributable to Henry Schein, Inc.:				
Basic	$ 1.17	$ 1.11	$ 2.49	$ 2.28
Diluted	$ 1.16	$ 1.10	$ 2.46	$ 2.26
Weighted-average common shares outstanding:				
Basic	137,350,488	140,358,428	137,323,076	141,316,258
Diluted	138,869,064	141,656,883	139,055,205	142,537,906

See accompanying notes.

Table of Contents

HENRY SCHEIN, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited, in millions)

	Three Months Ended		Six Months Ended	
	June 25, 2022	June 26, 2021	June 25, 2022	June 26, 2021
Net income	$ 167	$ 164	$ 353	$ 339
Other comprehensive income (loss), net of tax:				
Foreign currency translation gain (loss)	(90)	38	(87)	-
Unrealized gain (loss) from foreign currency hedging activities	8	(2)	9	1
Pension adjustment gain	-	-	-	1
Other comprehensive income (loss), net of tax	(82)	36	(78)	2
Comprehensive income	85	200	275	341
Comprehensive income attributable to noncontrolling interests:				
Net income	(7)	(8)	(12)	(17)
Foreign currency translation (gain) loss	9	(7)	8	(1)
Comprehensive (income) loss attributable to noncontrolling interests	2	(15)	(4)	(18)
Comprehensive income attributable to Henry Schein, Inc.	$ 87	$ 185	$ 271	$ 323

See accompanying notes.

Table of Contents

HENRY SCHEIN, INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(unaudited, in millions, except share and per share data)

	Common Stock $0.01 Par Value Shares	Common Stock $0.01 Par Value Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income / (Loss)	Noncontrolling Interests	Total Stockholders' Equity
Balance, March 26, 2022	137,708,809	$ 1	$ -	$ 3,759	$ (168)	$ 632	$ 4,224
Net income (excluding $ 5 attributable to Redeemable noncontrolling interests)	-	-	-	160	-	2	162
Foreign currency translation loss (excluding loss of $ 8 attributable to Redeemable noncontrolling interests)	-	-	-	-	(81)	(1)	(82)
Unrealized gain from foreign currency hedging activities, net of tax of $ 2	-	-	-	-	8	-	8
Change in fair value of redeemable securities	-	-	10	-	-	-	10
Repurchase and retirement of common stock	(1,345,397)	-	(16)	(94)	-	-	(110)
Stock-based compensation expense	78,738	-	15	-	-	-	15
Stock issued upon exercise of stock options	3,594	-	-	-	-	-	-
Shares withheld for payroll taxes	(6,016)	-	(1)	-	-	-	(1)
Settlement of stock-based compensation awards	(168)	-	1	-	-	-	1
Transfer of charges in excess of capital	-	-	(9)	9	-	-	-
Balance, June 25, 2022	136,439,560	$ 1	$ -	$ 3,834	$ (241)	$ 633	$ 4,227

	Common Stock $0.01 Par Value Shares	Common Stock $0.01 Par Value Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income / (Loss)	Noncontrolling Interests	Total Stockholders' Equity
Balance, March 27, 2021	141,310,113	$ 1	$ -	$ 3,493	$ (136)	$ 639	$ 3,997
Net income (excluding $ 7 attributable to Redeemable noncontrolling interests)	-	-	-	156	-	1	157
Foreign currency translation gain (excluding gain of $ 7 attributable to Redeemable noncontrolling interests)	-	-	-	-	31	-	31
Unrealized loss from foreign currency hedging activities, net of tax of $ 0	-	-	-	-	(2)	-	(2)
Change in fair value of redeemable securities	-	-	(87)	-	-	-	(87)
Initial noncontrolling interests and adjustments related to business acquisitions	-	-	-	-	-	6	6
Repurchase and retirement of common stock	(1,542,315)	-	(15)	(97)	-	-	(112)
Stock-based compensation expense	-	-	17	-	-	-	17
Stock issued upon exercise of stock options	17,916	-	-	-	-	-	-
Shares withheld for payroll taxes	(4,873)	-	-	-	-	-	-
Settlement of stock-based compensation awards	-	-	(1)	-	-	-	(1)
Transfer of charges in excess of capital	-	-	86	(86)	-	-	-
Balance, June 26, 2021	139,780,841	$ 1	$ -	$ 3,466	$ (107)	$ 646	$ 4,006

See accompanying notes.

Table of Contents

HENRY SCHEIN, INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(unaudited, in millions, except share and per share data)

	Common Stock $.01 Par Value Shares	Common Stock $.01 Par Value Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income / (Loss)	Noncontrolling Interests	Total Stockholders' Equity
Balance, December 25, 2021	137,145,558	$ 1	$ -	$ 3,595	$ (171)	$ 638	$ 4,063
Net income (excluding $ 9 attributable to Redeemable noncontrolling interests)	-	-	-	341	-	3	344
Foreign currency translation loss (excluding loss of $ 7 attributable to Redeemable noncontrolling interests)	-	-	-	-	(79)	(1)	(80)
Unrealized gain from foreign currency hedging activities, net of tax of $ 3	-	-	-	-	9	-	9
Purchase of noncontrolling interests	-	-	-	-	-	(7)	(7)
Change in fair value of redeemable securities	-	-	7	-	-	-	7
Repurchase and retirement of common stock	(1,345,397)	-	(16)	(94)	-	-	(110)
Stock-based compensation expense	954,899	-	27	-	-	-	27
Stock issued upon exercise of stock options	29,827	-	2	-	-	-	2
Shares withheld for payroll taxes	(342,347)	-	(29)	-	-	-	(29)
Settlement of stock-based compensation awards	(2,980)	-	1	-	-	-	1
Transfer of charges in excess of capital	-	-	8	(8)	-	-	-
Balance, June 25, 2022	136,439,560	$ 1	$ -	$ 3,834	$ (241)	$ 633	$ 4,227

	Common Stock $0.01 Par Value Shares	Common Stock $0.01 Par Value Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income / (Loss)	Noncontrolling Interests	Total Stockholders' Equity
Balance, December 26, 2020	142,462,571	$ 1	$ -	$ 3,455	$ (108)	$ 636	$ 3,984
Net income (excluding $ 14 attributable to Redeemable noncontrolling interests)	-	-	-	322	-	3	325
Foreign currency translation loss (excluding gain of $ 1 attributable to Redeemable noncontrolling interests)	-	-	-	-	(1)	-	(1)
Unrealized gain from foreign currency hedging activities, net of tax of $ 1	-	-	-	-	1	-	1
Pension adjustment gain, net of tax of $ 0	-	-	-	-	1	-	1
Change in fair value of redeemable securities	-	-	(133)	-	-	-	(133)
Initial noncontrolling interests and adjustments related to business acquisitions	-	-	-	-	-	7	7
Repurchase and retirement of common stock	(2,867,557)	-	(27)	(174)	-	-	(201)
Stock-based compensation expense	299,561	-	30	-	-	-	30
Shares withheld for payroll taxes	(113,734)	-	(7)	-	-	-	(7)
Transfer of charges in excess of capital	-	-	137	(137)	-	-	-
Balance, June 26, 2021	139,780,841	$ 1	$ -	$ 3,466	$ (107)	$ 646	$ 4,006

See accompanying notes.

Table of Contents

HENRY SCHEIN, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in millions)

	Six Months Ended	
	June 25, 2022	June 26, 2021
Cash flows from operating activities:		
Net income	$ 353	$ 339
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	108	99
Stock-based compensation expense	27	30
Benefit from losses on trade and other accounts receivable	-	(4)
Provision for (benefit from) deferred income taxes	(15)	6
Equity in earnings of affiliates	(9)	(12)
Distributions from equity affiliates	10	11
Changes in unrecognized tax benefits	(1)	(6)
Other	(13)	3
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	21	102
Inventories	4	(124)
Other current assets	(37)	(86)
Accounts payable and accrued expenses	(198)	(136)
Net cash provided by operating activities	250	222
Cash flows from investing activities:		
Purchases of fixed assets	(43)	(32)
Payments related to equity investments and business acquisitions, net of cash acquired	(7)	(296)
Proceeds from (payments for) loan to affiliate	6	(2)
Other	(15)	(11)
Net cash used in investing activities	(59)	(341)
Cash flows from financing activities:		
Net change in bank borrowings	30	(5)
Proceeds from issuance of long-term debt	-	200
Principal payments for long-term debt	(57)	(120)
Proceeds from issuance of stock upon exercise of stock options	2	-
Payments for repurchases and retirement of common stock	(110)	(201)
Payments for taxes related to shares withheld for employee taxes	(29)	(8)
Distributions to noncontrolling shareholders	(12)	(4)
Acquisitions of noncontrolling interests in subsidiaries	(19)	(1)
Net cash used in financing activities	(195)	(139)
Effect of exchange rate changes on cash and cash equivalents	(6)	4
Net change in cash and cash equivalents	(10)	(254)
Cash and cash equivalents, beginning of period	118	421
Cash and cash equivalents, end of period	$ 108	$ 167

See accompanying notes.

HENRY SCHEIN, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except share and per share data)
(unaudited)

Note 1 – Basis of Presentation

Our condensed consolidated financial statements include the accounts of Henry Schein, Inc. and all of our controlled subsidiaries ("we", "us" or "our"). All intercompany accounts and transactions are eliminated in consolidation. Investments in unconsolidated affiliates in which we have the ability to influence the operating or financial decisions are accounted for under the equity method. Certain prior period amounts have been reclassified to conform to the current period presentation.

Our accompanying unaudited condensed 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 unaudited interim condensed 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 25, 2021 and with the information contained in our other publicly-available filings with the Securities and Exchange Commission. The condensed 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.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 25, 2022 are not necessarily indicative of the results to be expected for any other interim period or for the year ending December 31, 2022.

We consolidate the results of operations and financial position of a trade accounts receivable securitization which we consider a Variable Interest Entity ("VIE") because we are the primary beneficiary, and we have the power to direct activities that most significantly affect the economic performance and have the obligation to absorb the majority of the losses or benefits. For this VIE, the trade accounts receivable transferred to the VIE are pledged as collateral to the related debt. The creditors have recourse to us for losses on these trade accounts receivable. At June 25, 2022 and December 25, 2021, certain trade accounts receivable that can only be used to settle obligations of this VIE were $76 million and $138 million, respectively, and the liabilities of this VIE where the creditors have recourse to us were $60 million and $105 million, respectively.

Our condensed consolidated financial statements reflect estimates and assumptions made by us that affect, among other things, our goodwill, long-lived asset and definite-lived intangible asset valuation; inventory valuation; equity investment valuation; assessment of the annual effective tax rate; valuation of deferred income taxes and income tax contingencies; the allowance for doubtful accounts; hedging activity; supplier rebates; measurement of compensation cost for certain share-based performance awards and cash bonus plans; and pension plan assumptions. Due to the significant uncertainty surrounding the future impact of COVID-19, our judgments regarding estimates and impairments could change in the future. There is an ongoing risk that the COVID-19 pandemic may again have a material adverse effect on our business, results of operations and cash flows and may result in a material adverse effect on our financial condition and liquidity. However, the extent of the potential impact cannot be reasonably estimated at this time.

Note 2 – Critical Accounting Policies, Accounting Pronouncements Adopted and Recently Issued Accounting Standards

Critical Accounting Policies

There have been no material changes in our critical accounting policies during the six months ended June 25, 2022, as compared to the critical accounting policies described in Item 7 of our Annual Report on Form 10-K for the year ended December 25, 2021.

Accounting Pronouncements Adopted

On December 26, 2021 we adopted Accounting Standards Update ("ASU") No. 2021 – 08, "Accounting for Contract Assets and Contract Liabilities from Contracts with Customers" (Subtopic 805), as early adoption of this ASU was permitted. ASU 2021 – 08 requires an acquirer to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. At the acquisition date, an acquirer should account for the related revenue contracts in accordance with Topic 606 as if it had originated the contracts. To achieve this, an acquirer may assess how the acquiree applied Topic 606 to determine what to record for the acquired revenue contracts. Generally, this should result in an acquirer recognizing and measuring the acquired contract assets and contract liabilities consistent with how they were recognized and measured in the acquiree's financial statements. Our adoption of ASU 2021 - 08 did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Standards

In March 2020, the Financial Accounting Standards Board ("FASB") issued ASU No. 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting" which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions affected by the discontinuation of the London Interbank Offered Rate ("LIBOR") or by another reference rate expected to be discontinued because of reference rate reform. The guidance was effective beginning March 12, 2020 and can be applied prospectively through December 31, 2022. In January 2021, the FASB issued ASU 2021-01, Reference Rate Reform (Topic 848): Scope ("ASU 2021-01"). ASU 2021-01 provides temporary optional expedients and exceptions to certain guidance in U.S. GAAP to ease the financial reporting burdens related to the expected market transition from LIBOR and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate. The guidance is effective upon issuance, on January 7, 2021, and can be applied through December 31, 2022. We do not expect that the requirements of this guidance will have a material impact on our consolidated financial statements.

In March 2022, the FASB issued ASU No. 2022-01, "Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method," which will expand companies' abilities to hedge the benchmark interest rate risk of portfolios of financial assets (or beneficial interests) in a fair value hedge. This ASU expands the use of the portfolio layer method (previously referred to as the last-of-layer method) to allow multiple hedges of a single closed portfolio of assets using spot starting, forward starting and amortizing-notional swaps. It also permits both prepayable and non-prepayable financial assets to be included in the closed portfolio of assets hedged in a portfolio layer hedge. This ASU further requires that basis adjustments not be allocated to individual assets for active portfolio layer method hedges, but rather be maintained on the closed portfolio of assets as a whole. ASU 2022 – 01 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted for any entity that has adopted the amendments in ASU 2017-12. We do not expect that the requirements of this guidance will have a material impact on our consolidated financial statements.

In March 2022, the FASB issued ASU No. 2022-02, "Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructuring and Vintage Disclosures". The amendments in this ASU eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted the Current Expected Credit Losses model and enhance the disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require a public business entity to disclose current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. ASU 2022 – 02 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted for any entity that has adopted the amendments in ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". We do not expect that the requirements of this guidance will have a material impact on our consolidated financial statements.

(in millions, except share and per share data)

Note 3 – Revenue from Contracts with Customers

Revenue is recognized in accordance with policies disclosed in Item 8 of our Annual Report on Form 10-K for the year ended December 25, 2021.

Disaggregation of Net Sales

The following table disaggregates our Net sales by reportable segment and geographic area:

	Three Months Ended June 25, 2022			Six Months Ended June 25, 2022		
	North America	International	Global	North America	International	Global
Net Sales:						
Health care distribution						
Dental	$ 1,124	$ 729	$ 1,853	$ 2,229	$ 1,452	$ 3,681
Medical	977	19	996	2,127	41	2,168
Total health care distribution	2,101	748	2,849	4,356	1,493	5,849
Technology and value-added services	158	23	181	314	46	360
Total revenues	$ 2,259	$ 771	$ 3,030	$ 4,670	$ 1,539	$ 6,209

	Three Months Ended June 26, 2021			Six Months Ended June 26, 2021		
	North America	International	Global	North America	International	Global
Net Sales:						
Health care distribution						
Dental	$ 1,129	$ 783	$ 1,912	$ 2,174	$ 1,527	$ 3,701
Medical	875	27	902	1,838	55	1,893
Total health care distribution	2,004	810	2,814	4,012	1,582	5,594
Technology and value-added services	131	22	153	255	43	298
Total revenues	$ 2,135	$ 832	$ 2,967	$ 4,267	$ 1,625	$ 5,892

At December 25, 2021, the current portion of contract liabilities of $89 million was reported in Accrued expenses: Other, and $10 million related to non-current contract liabilities was reported in Other liabilities. During the six months ended June 25, 2022, we recognized in net sales $56 million of the amounts that were previously deferred at December 25, 2021. At June 25, 2022, the current and non-current portion of contract liabilities were $87 million and $9 million, respectively.

HENRY SCHEIN, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except share and per share data)
(unaudited)

Note 4 – Segment Data

We conduct our business through two reportable segments: (i) health care distribution and (ii) technology and value-added services. These segments offer different products and services to the same customer base. Our global dental businesses serve office-based dental practitioners, dental laboratories, schools and other institutions. Our global medical businesses serve office-based medical practitioners, ambulatory surgery centers, other alternate-care settings and other institutions. Our global dental and medical groups serve practitioners in 32 countries worldwide.

The health care distribution reportable segment aggregates our global dental and medical operating segments. This segment distributes consumable products, dental specialty products, small equipment, laboratory products, large equipment, equipment repair services, branded and generic pharmaceuticals, vaccines, surgical products, diagnostic tests, infection-control products, personal protective equipment ("PPE") and vitamins.

Our global technology and value-added services reportable segment provides software, technology and other value-added services to health care practitioners. Our technology offerings include practice management software systems for dental and medical practitioners. Our value-added practice solutions include practice consultancy, education, revenue cycle management and financial services on a non-recourse basis, e-services, practice technology, network and hardware services, as well as continuing education services for practitioners.

The following tables present information about our reportable and operating segments:

	Three Months Ended		Six Months Ended	
	June 25, 2022	June 26, 2021	June 25, 2022	June 26, 2021
Net Sales:				
Health care distribution				
Dental	$ 1,853	$ 1,912	$ 3,681	$ 3,701
Medical	996	902	2,168	1,893
Total health care distribution	2,849	2,814	5,849	5,594
Technology and value-added services	181	153	360	298
Total	$ 3,030	$ 2,967	$ 6,209	$ 5,892

	Three Months Ended		Six Months Ended	
	June 25, 2022	June 26, 2021	June 25, 2022	June 26, 2021
Operating Income:				
Health care distribution	$ 189	$ 182	$ 400	$ 379
Technology and value-added services	31	28	64	61
Total	$ 220	$ 210	$ 464	$ 440

HENRY SCHEIN, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except share and per share data)
(unaudited)

Note 5 – Business Acquisitions

2022 Acquisitions

During the six months ended June 25, 2022, we made several acquisitions within the technology and value-added services segments. The impact of these acquisitions was not considered material to our condensed consolidated financial statements.

2021 Acquisitions

We completed several acquisitions during the six months ended June 26, 2021 which were immaterial to our financial statements. Our acquired ownership interest ranged between approximately 51% to 100%. Acquisitions within our health care distribution segment included companies that specialize in distribution of dental products, a provider of home medical supplies, and product kitting and sterile packaging. Within our technology and value-added services segment, we acquired companies that focus on dental marketing and website solutions, practice transition services, and business analytics and intelligence software.

The following table aggregates the estimated fair value, as of the date of acquisition, of consideration paid and net assets acquired for acquisitions during the six months ended June 26, 2021. While we use our best estimates and assumptions to accurately value those assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill within our condensed consolidated balance sheets.

Acquisition consideration:		
Cash	$	303
Deferred consideration		8
Redeemable noncontrolling interests		129
Total consideration	$	440
Identifiable assets acquired and liabilities assumed:		
Current assets		107
Intangible assets		184
Other noncurrent assets		34
Current liabilities		(44)
Deferred income taxes		(17)
Other noncurrent liabilities		(37)
Total identifiable net assets		227
Goodwill		213
Total net assets acquired	$	440

(in millions, except share and per share data)

Table of Contents

The following table summarizes the identifiable intangible assets acquired during the six months ended June 26, 2021 and their estimated useful lives as of the date of the acquisition:

			Estimated Useful Lives (in years)
Customer relationships and lists	$	124	5-12
Trademark / Tradename		33	5-7
Non-compete agreements		6	5
Product development		21	5-7
Total	$	184	

The major classes of assets and liabilities that we generally allocate purchase price to, excluding goodwill, include identifiable intangible assets (i.e., customer relationships and lists, trademarks and trade names, product development and non-compete agreements), inventory and accounts receivable, property, plant and equipment, deferred taxes and other current and long-term assets and liabilities. The estimated fair value of identifiable intangible assets is based on critical estimates, judgments and assumptions derived from analysis of market conditions, discount rates, discounted cash flows, customer retention rates and estimated useful lives.

Some prior owners of acquired subsidiaries are eligible to receive additional purchase price cash consideration if certain financial targets are met. We have accrued liabilities for the estimated fair value of additional purchase price consideration at the time of the acquisition. Any adjustments to these accrual amounts are recorded in our condensed consolidated statements of income. For the six months ended June 25, 2022 and June 26, 2021, there were no material adjustments recorded in our condensed consolidated statements of income relating to changes in estimated contingent purchase price liabilities.

During the six months ended June 25, 2022 and June 26, 2021 we incurred $3 million and $4 million, respectively, in acquisition costs.

HENRY SCHEIN, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except share and per share data)
(unaudited)

Note 6 – Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs).

The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1— Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

- Level 2— Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- Level 3— Inputs that are unobservable for the asset or liability.

The following section describes the fair values of our financial instruments and the methodologies that we used to measure their fair values.

Investments and notes receivable

There are no quoted market prices available for investments in unconsolidated affiliates and notes receivable; however, we believe the carrying amounts are a reasonable estimate of fair value based on the interest rates in the applicable markets.

Debt

The fair value of our debt (including bank credit lines) is classified as Level 3 within the fair value hierarchy, and as of June 25, 2022 and December 25, 2021 was estimated at $858 million and $873 million, respectively. Factors that we considered when estimating the fair value of our debt included market conditions, such as interest rates and credit spreads.

Derivative contracts

Derivative contracts are valued using quoted market prices and significant other observable inputs. We use derivative instruments to minimize our exposure to fluctuations in foreign currency exchange rates. Our derivative instruments primarily include foreign currency forward agreements related to certain intercompany loans, certain forecasted inventory purchase commitments with foreign suppliers, foreign currency forward contracts to hedge a portion of our euro-denominated foreign operations which are designated as net investment hedges and a total return swap for the purpose of economically hedging our unfunded non-qualified supplemental executive retirement plan and our deferred compensation plan.

The fair values for the majority of our foreign currency derivative contracts are obtained by comparing our contract rate to a published forward price of the underlying market rates, which is based on market rates for comparable transactions and are classified within Level 2 of the fair value hierarchy.

(in millions, except share and per share data)

Table of Contents

Redeemable noncontrolling interests

The values for Redeemable noncontrolling interests are classified within Level 3 of the fair value hierarchy and are based on recent transactions and/or implied multiples of earnings. See Note 11–Redeemable Noncontrolling Interests for additional information.

The following table presents our assets and liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of June 25, 2022 and December 25, 2021:

	June 25, 2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Derivative contracts designated as hedges	$ -	$ 23	$ -	$ 23
Derivative contracts undesignated	-	2	-	2
Total assets	$ -	$ 25	$ -	$ 25
Liabilities:				
Derivative contracts designated as hedges	$ -	$ 1	$ -	$ 1
Derivative contracts undesignated	-	5	-	5
Total return swaps	-	5	-	5
Total liabilities	$ -	$ 11	$ -	$ 11
Redeemable noncontrolling interests	$ -	$ -	$ 586	$ 586

	December 25, 2021			
	Level 1	Level 2	Level 3	Total
Assets:				
Derivative contracts designated as hedges	$ -	$ 8	$ -	$ 8
Derivative contracts undesignated	-	1	-	1
Total return swaps	-	1	-	1
Total assets	$ -	$ 10	$ -	$ 10
Liabilities:				
Derivative contracts designated as hedges	$ -	$ 1	$ -	$ 1
Derivative contracts undesignated	-	2	-	2
Total liabilities	$ -	$ 3	$ -	$ 3
Redeemable noncontrolling interests	$ -	$ -	$ 613	$ 613

HENRY SCHEIN, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except share and per share data)
(unaudited)

Note 7 – Debt

Bank Credit Lines

Bank credit lines consisted of the following:

	June 25, 2022	December 25, 2021
Revolving credit agreement	$ -	$ -
Other short-term bank credit lines	85	51
Total	$ 85	$ 51

Revolving Credit Agreement

On August 20, 2021, we entered into a new $1 billion revolving credit agreement (the "Credit Agreement"). This facility which matures on August 20, 2026 replaced our $750 million revolving credit facility which was scheduled to mature in April 2022. The interest rate is based on the USD LIBOR plus a spread based on our leverage ratio at the end of each financial reporting quarter. Most LIBOR rates have been discontinued after December 31, 2021, while the remaining LIBOR rates will be discontinued immediately after June 30, 2023. We do not expect the discontinuation of LIBOR as a reference rate in our debt agreements to have a material adverse effect on our financial position or to materially affect our interest expense. The Credit Agreement also requires, among other things, that we maintain certain maximum leverage ratios. Additionally, the Credit Agreement contains customary representations, warranties and affirmative covenants as well as customary negative covenants, subject to negotiated exceptions, on liens, indebtedness, significant corporate changes (including mergers), dispositions and certain restrictive agreements. As of June 25, 2022 and December 25, 2021, we had no borrowings under this revolving credit facility. As of June 25, 2022 and December 25, 2021, there were $9 million and $9 million of letters of credit, respectively, provided to third parties under the credit facility.

Other Short-Term Bank Credit Lines

As of June 25, 2022 and December 25, 2021, we had various other short-term bank credit lines available, of which $85 million and $51 million, respectively, were outstanding. At June 25, 2022 and December 25, 2021, borrowings under all of these credit lines had a weighted average interest rate of 9.90% and 10.44%, respectively.

HENRY SCHEIN, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except share and per share data)
(unaudited)

Long-term debt

Long-term debt consisted of the following:

	June 25, 2022	December 25, 2021
Private placement facilities	$ 699	$ 706
U.S. trade accounts receivable securitization	60	105
Various collateralized and uncollateralized loans payable with interest, in varying installments through 2023 at interest rates ranging from 0.00% to 3.50% at June 25, 2022 and ranging from 2.62% to 4.27% at December 25, 2021	7	4
Finance lease obligations	7	7
Total	773	822
Less current maturities	(4)	(11)
Total long-term debt	$ 769	$ 811

Private Placement Facilities

Our private placement facilities were amended on October 20, 2021 to include four (previously three) insurance companies, have a total facility amount of $1.5 billion (previously $1.0 billion), and are available on an uncommitted basis at fixed rate economic terms to be agreed upon at the time of issuance, from time to time through October 20, 2026 (previously June 23, 2023). The facilities allow us to issue senior promissory notes to the lenders at a fixed rate based on an agreed upon spread over applicable treasury notes at the time of issuance. The term of each possible issuance will be selected by us and can range from five to 15 years (with an average life no longer than 12 years). The proceeds of any issuances under the facilities will be used for general corporate purposes, including working capital and capital expenditures, to refinance existing indebtedness, and/or to fund potential acquisitions. The agreements provide, among other things, that we maintain certain maximum leverage ratios, and contain restrictions relating to subsidiary indebtedness, liens, affiliate transactions, disposal of assets and certain changes in ownership. These facilities contain make-whole provisions in the event that we pay off the facilities prior to the applicable due dates.

The components of our private placement facility borrowings as of June 25, 2022 are presented in the following table:

Date of Borrowing	Amount of Borrowing Outstanding	Borrowing Rate	Due Date
January 20, 2012	$ 50	3.45%	January 20, 2024
December 24, 2012	50	3.00	December 24, 2024
June 16, 2017	100	3.42	June 16, 2027
September 15, 2017	100	3.52	September 15, 2029
January 2, 2018	100	3.32	January 2, 2028
September 2, 2020	100	2.35	September 2, 2030
June 2, 2021	100	2.48	June 2, 2031
June 2, 2021	100	2.58	June 2, 2033
Less: Deferred debt issuance costs	(1)		
Total	$ 699		

HENRY SCHEIN, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except share and per share data)
(unaudited)

U.S. Trade Accounts Receivable Securitization

We have a facility agreement based on the securitization of our U.S. trade accounts receivable that is structured as an asset-backed securitization program with pricing committed for up to three years. Our current facility, which had a purchase limit of $350 million, was scheduled to expire on April 29, 2022. On October 20, 2021, we amended our U.S. trade accounts receivable securitization facility to increase the purchase limit to $450 million with two banks as agents and extend the expiration date to October 18, 2024. As of June 25, 2022 and December 25, 2021, the borrowings outstanding under this securitization facility were $60 million and $105 million, respectively. At June 25, 2022, the interest rate on borrowings under this facility was based on the asset-backed commercial paper rate of 1.43% plus 0.75%, for a combined rate of 2.18%. At December 25, 2021, the interest rate on borrowings under this facility was based on the asset-backed commercial paper rate of 0.19% plus 0.75%, for a combined rate of 0.94%.

If our accounts receivable collection pattern changes due to customers either paying late or not making payments, our ability to borrow under this facility may be reduced.

We are required to pay a commitment fee of 30 to 35 basis points depending upon program utilization.

Note 8 – Income Taxes

For the six months ended June 25, 2022 our effective tax rate was 23.9% compared to 24.3% for the prior year period. The difference between our effective tax rate and the federal statutory tax rate for the six months ended June 25, 2022 primarily relates to state and foreign income taxes and interest expense as well as share-based compensation. The difference between our effective tax rate and the federal statutory tax rate for the six months ended June 26, 2021 primarily relates to state and foreign income taxes, interest expense and tax charges and credits associated with legal entity reorganizations.

The total amount of unrecognized tax benefits, which are included in “Other liabilities” within our condensed consolidated balance sheets, as of June 25, 2022 and December 25, 2021 was $83 million and $84 million, respectively of which $69 million and $69 million, respectively, would affect the effective tax rate if recognized. It is possible that the amount of unrecognized tax benefits will change in the next 12 months, which may result in a material impact on our condensed consolidated statements of income.

All tax returns audited by the IRS are officially closed through 2016. The tax years subject to examination by the IRS include years 2017 and forward. During the quarter ended December 25, 2021, we were notified by the IRS that tax year 2019 was selected for examination.

During the quarter ended September 26, 2020 we reached an agreement with the Advanced Pricing Division on an appropriate transfer pricing methodology for the years 2014-2025. The objective of this resolution was to mitigate future transfer pricing audit adjustments.

The total amounts of interest and penalties are classified as a component of the provision for income taxes. The amount of tax interest expense/(credit) was $0 million for the six months ended June 25, 2022, and $(3) million for the six months ended June 26, 2021. The total amount of accrued interest is included in “Other liabilities,” and was $13 million as of June 25, 2022 and $12 million as of December 25, 2021. No penalties were accrued for the periods presented.

Note 9 – Legal Proceedings

Henry Schein, Inc. has been named as a defendant in multiple lawsuits (currently less than one-hundred and fifty (150); in less than half of those cases one or more of Henry Schein, Inc.'s subsidiaries is also named as a defendant). Generally, the lawsuits allege that the manufacturers of prescription opioid drugs engaged in a false advertising campaign to expand the market for such drugs and their own market share and that the entities in the supply chain (including Henry Schein, Inc and its affiliated companies) reaped financial rewards by refusing or otherwise failing to monitor appropriately and restrict the improper distribution of those drugs. These actions consist of some that have been consolidated within the MultiDistrict Litigation ("MDL") proceeding In Re National Prescription Opiate Litigation (MDL No. 2804; Case No. 17-md-2804) and are currently stayed, and others which remain pending in state courts and are proceeding independently and outside of the MDL. At this time, the following cases are set for trial: the action filed by Mobile County Board of Health, et al., in Alabama state court, which is currently set for a jury trial on January 9, 2023; the action filed by DCH Health Care Authority, et al. in Alabama state court, which is currently scheduled for a jury trial on July 24, 2023; and the action filed by Florida Health Sciences Center, Inc. (and 38 other hospitals located throughout the State of Florida) in Florida state court, which is currently scheduled for a jury trial in October 2024. In June 2022, we settled twenty-six cases filed by hospitals in West Virginia, and settled with one additional hospital, for a total amount of three-hundred thousand dollars. The twenty-six cases have been dismissed. Of Henry Schein's 2021 sales of approximately $12.4 billion, sales of opioids represented less than two-tenths of 1 percent. Opioids represent a negligible part of our business. We intend to defend ourselves vigorously against these actions.

From time to time, we may become a party to other legal proceedings, including, without limitation, product liability claims, employment matters, commercial disputes, governmental inquiries and investigations (which may in some cases involve our entering into settlement arrangements or consent decrees), and other matters arising out of the ordinary course of our business. While the results of any legal proceeding cannot be predicted with certainty, in our opinion none of these other pending matters are currently anticipated to have a material adverse effect on our consolidated financial position, liquidity or results of operations.

As of June 25, 2022, we had accrued our best estimate of potential losses relating to claims that were probable to result in liability and for which we were able to reasonably estimate a loss. This accrued amount, as well as related expenses, was not material to our financial position, results of operations or cash flows. Our method for determining estimated losses considers currently available facts, presently enacted laws and regulations and other factors, including probable recoveries from third parties.

Note 10 – Stock-Based Compensation

Stock-based awards are provided to certain employees under the terms of our 2020 Stock Incentive Plan and to non-employee directors under the terms of our 2015 Non-Employee Director Stock Incentive Plan (together, the "Plans"). The Plans are administered by the Compensation Committee of the Board of Directors (the "Compensation Committee"). Historically, equity-based awards to our employees have been granted solely in the form of time-based and performance-based restricted stock units ("RSUs"). However, for our 2021 fiscal year, in light of the COVID-19 pandemic, the Compensation Committee determined it would be difficult for management to set a meaningful three-year cumulative earnings per share target as the goal applicable to performance-based restricted stock unit awards as it had done in prior years. Instead, the Compensation Committee set our equity-based awards to employees for fiscal 2021 in the form of time-based RSUs and non-qualified stock options which focus on stock value appreciation and retention instead of pre-established performance goals. Our non-employee directors continued to receive equity-based awards for fiscal 2021 solely in the form of time-based RSUs. In March 2022, the Compensation Committee reinstated performance-based RSUs for equity-based awards to employees for fiscal 2022 and awarded grants in the form of time-based RSUs, performance-based RSUs and non-qualified stock options.

RSUs are stock-based awards granted to recipients with specified vesting provisions. In the case of RSUs, common stock is generally delivered on or following satisfaction of vesting conditions. We issue RSUs to employees that vest (i) solely based on the recipient's continued service over time, primarily with four-year cliff vesting and/or (ii) based on achieving specified performance measurements and the recipient's continued service over time, primarily with three-year cliff vesting. RSUs granted under the 2015 Non-Employee Director Stock Incentive Plan primarily are granted with 12-month cliff vesting. For these RSUs, we recognize the cost as compensation expense on a straight-line basis.

With respect to time-based RSUs, we estimate the fair value on the date of grant based on our closing stock price at the time of grant. With respect to performance-based RSUs, the number of shares that ultimately vest and are received by the recipient is based upon our performance as measured against specified targets over a specified period, as determined by the Compensation Committee. Although there is no guarantee that performance targets will be achieved, we estimate the fair value of performance-based RSUs based on our closing stock price at time of grant.

Each of the Plans provide for certain adjustments to the performance measurement in connection with awards under the Plans. With respect to the performance-based RSUs granted under our 2020 Stock Incentive Plan, such performance measurement adjustments relate to significant events, including, without limitation, acquisitions, divestitures, new business ventures, certain capital transactions (including share repurchases), differences in budgeted average outstanding shares (other than those resulting from capital transactions referred to above), restructuring costs, if any, certain litigation settlements or payments, if any, changes in accounting principles or in applicable laws or regulations, changes in income tax rates in certain markets, foreign exchange fluctuations, the financial impact, either positive or negative, of the differences in projected earnings generated by sales of COVID-19 test kits (solely with respect to performance-based RSUs granted in the 2022 plan year) and unforeseen events or circumstances affecting us.

Over the performance period, the number of shares of common stock that will ultimately vest and be issued and the related compensation expense is adjusted upward or downward based upon our estimation of achieving such performance targets. The ultimate number of shares delivered to recipients and the related compensation cost recognized as an expense will be based on our actual performance metrics as defined under the Plans.

HENRY SCHEIN, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except share and per share data)
(unaudited)

Stock options are awards that allow the recipient to purchase shares of our common stock at a fixed price following vesting of the stock options. Stock options are granted at an exercise price equal to our closing stock price on the date of grant. Stock options issued beginning in 2021 vest one-third per year based on the recipient's continued service, subject to the terms and conditions of the 2020 Stock Incentive Plan, are fully vested three years from the grant date and have a contractual term of ten years from the grant date, subject to earlier termination of the term upon certain events. Compensation expense for these stock options is recognized using a graded vesting method. We estimate the fair value of stock options using the Black-Scholes valuation model.

In addition to equity-based awards granted in fiscal 2021 under the our long-term incentive program, the Compensation Committee granted a Special Pandemic Recognition Award under the 2020 Stock Incentive Plan to recipients of performance-based RSUs under the 2018 long-term incentive program. The payout under the performance-based restricted stock units granted under the fiscal 2018 long-term incentive program (the "2018 LTIP") was negatively impacted by the global COVID-19 pandemic. Given the significance of the impact of the pandemic on our three-year EPS goal under such equity awards and the contributions made by our employees (including those who received such awards), on March 3, 2021, the Compensation Committee granted a Special Pandemic Recognition Award to recipients of performance-based restricted stock units under the 2018 LTIP who were employed by us on the grant date of the Special Pandemic Recognition Award. These time-based RSU awards vest 50% on the first anniversary of the grant date and 50% on the second anniversary of the grant date, based on the recipient's continued service and subject to the terms and conditions of the 2020 Stock Incentive Plan, and are recorded as compensation expense using a graded vesting method. The combination of the 20% payout based on actual performance of the 2018 LTIP and the one-time Special Pandemic Recognition Award granted in 2021 will generate a cumulative payout of 75% of each recipient's original number of performance-based restricted stock units awarded in 2018 if the recipient satisfies the two-year vesting schedule commencing on the grant date.

Our accompanying condensed consolidated statements of income reflect pre-tax share-based compensation expense of $15 million ($12 million after-tax) and $27 million ($21 million after-tax) for the three and six months ended June 25, 2022, respectively. For the three and six months ended June 26, 2021, we recorded pre-tax share-based compensation expense of $17 million ($13 million after-tax) and $30 million ($23 million after-tax), respectively.

Total unrecognized compensation cost related to unvested awards as of June 25, 2022 was $116 million, which is expected to be recognized over a weighted-average period of approximately 2.4 years.

Our accompanying condensed consolidated statements of cash flows present our stock-based compensation expense as an adjustment to reconcile net income to net cash provided by operating activities for all periods presented. In the accompanying condensed consolidated statements of cash flows, there were no benefits associated with tax deductions in excess of recognized compensation as a cash inflow from financing activities for the six months ended June 25, 2022 and June 26, 2021, respectively.

The following weighted-average assumptions were used in determining the most recent fair values of stock options granted using the Black-Scholes valuation model:

	2022
Expected dividend yield	0.0%
Expected stock price volatility	27.40%
Risk-free interest rate	3.25%
Expected life of options (years)	6.00

We have not declared cash dividends on our stock in the past and we do not anticipate declaring cash dividends in the foreseeable future. The expected stock price volatility is based on implied volatilities from traded options on our stock, historical volatility of our stock, and other factors. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant in conjunction with considering the expected life of options. The six-year expected life of the options was determined using the simplified method for estimating the expected term

HENRY SCHEIN, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except share and per share data)
(unaudited)

as permitted under SAB Topic 14. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by recipients of stock options, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by us.

The following table summarizes stock option activity under the Plans during the six months ended June 25, 2022:

	Stock Options			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at beginning of period	767,717	$ 63.24		
Granted	406,443	86.16		
Exercised	(29,892)	62.71		
Forfeited	(9,656)	71.72		
Outstanding at end of period	1,134,612	$ 71.39	9.1	$ 10
Options exercisable at end of period	219,642	$ 62.92		

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Vested or expected to vest	894,356	$ 73.68	9.2	$ 7

The following tables summarize the activity of our unvested RSUs for the six months ended June 25, 2022:

	Time-Based Restricted Stock Units		
	Shares/Units	Weighted Average Grant Date Fair Value Per Share	Intrinsic Value Per Share
Outstanding at beginning of period	1,945,862	$ 58.79	
Granted	455,169	86.13	
Vested	(501,944)	54.76	
Forfeited	(28,807)	65.88	
Outstanding at end of period	1,870,280	$ 66.47	$ 77.29

	Performance-Based Restricted Stock Units		
	Shares/Units	Weighted Average Grant Date Fair Value Per Share	Intrinsic Value Per Share
Outstanding at beginning of period	674,753	$ 59.63	
Granted	390,975	75.70	
Vested	(392,001)	59.24	
Forfeited	(7,724)	66.18	
Outstanding at end of period	666,003	$ 62.39	$ 77.29

HENRY SCHEIN, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except share and per share data)
(unaudited)

Note 11 – Redeemable Noncontrolling Interests

Some minority stockholders in certain of our subsidiaries have the right, at certain times, to require us to acquire their ownership interest in those entities at fair value. Accounting Standards Codification Topic 480-10 is applicable for noncontrolling interests where we are or may be required to purchase all or a portion of the outstanding interest in a consolidated subsidiary from the noncontrolling interest holder under the terms of a put option contained in contractual agreements. The components of the change in the redeemable noncontrolling interests for the six months ended June 25, 2022 and the year ended December 25, 2021 are presented in the following table:

	June 25, 2022	December 25, 2021
Balance, beginning of period	$ 613	$ 328
Decrease in redeemable noncontrolling interests due to acquisitions of noncontrolling interests in subsidiaries	(11)	(60)
Increase in redeemable noncontrolling interests due to business acquisitions	-	189
Net income attributable to redeemable noncontrolling interests	9	23
Dividends declared	(11)	(21)
Effect of foreign currency translation loss attributable to redeemable noncontrolling interests	(7)	(6)
Change in fair value of redeemable securities	(7)	160
Balance, end of period	$ 586	$ 613

Note 12 – Comprehensive Income

Comprehensive income includes certain gains and losses that, under U.S. GAAP, are excluded from net income as such amounts are recorded directly as an adjustment to stockholders' equity.

The following table summarizes our Accumulated other comprehensive loss, net of applicable taxes as of:

	June 25, 2022	December 25, 2021
Attributable to Redeemable noncontrolling interests:		
Foreign currency translation adjustment	$ (38)	$ (31)
Attributable to noncontrolling interests:		
Foreign currency translation adjustment	$ (1)	$ -
Attributable to Henry Schein, Inc.:		
Foreign currency translation adjustment	$ (234)	$ (155)
Unrealized gain (loss) from foreign currency hedging activities	7	(2)
Pension adjustment loss	(14)	(14)
Accumulated other comprehensive loss	$ (241)	$ (171)
Total Accumulated other comprehensive loss	$ (280)	$ (202)

(in millions, except share and per share data)

Table of Contents

The following table summarizes the components of comprehensive income, net of applicable taxes as follows:

	Three Months Ended		Six Months Ended	
	June 25, 2022	June 26, 2021	June 25, 2022	June 26, 2021
Net income	$ 167	$ 164	$ 353	$ 339
Foreign currency translation gain (loss)	(90)	38	(87)	-
Tax effect	-	-	-	-
Foreign currency translation gain (loss)	(90)	38	(87)	-
Unrealized gain (loss) from foreign currency hedging activities	10	(2)	12	2
Tax effect	(2)	-	(3)	(1)
Unrealized gain (loss) from foreign currency hedging activities	8	(2)	9	1
Pension adjustment gain	-	-	-	1
Tax effect	-	-	-	-
Pension adjustment gain	-	-	-	1
Comprehensive income	$ 85	$ 200	$ 275	$ 341

The change in the unrealized gain (loss) from foreign currency hedging activities during the three and six months ended June 25, 2022 and June 26, 2021 was primarily attributable to a net investment hedge that was entered into during 2019.

Our financial statements are denominated in the U.S. Dollar currency. Fluctuations in the value of foreign currencies as compared to the U.S. Dollar may have a significant impact on our comprehensive income. The foreign currency translation gain (loss) during the six months ended June 25, 2022 and six months ended June 26, 2021 was primarily impacted by changes in foreign currency exchange rates of the Euro, British Pound, Brazilian Real, Australian Dollar and Canadian Dollar.

The following table summarizes our total comprehensive income, net of applicable taxes, as follows:

	Three Months Ended		Six Months Ended	
	June 25, 2022	June 26, 2021	June 25, 2022	June 26, 2021
Comprehensive income attributable to Henry Schein, Inc.	$ 87	$ 185	$ 271	$ 323
Comprehensive income attributable to noncontrolling interests	1	1	2	3
Comprehensive income (loss) attributable to Redeemable noncontrolling interests	(3)	14	2	15
Comprehensive income	$ 85	$ 200	$ 275	$ 341

HENRY SCHEIN, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except share and per share data)
(unaudited)

Note 13 – Plans of Restructuring

On November 20, 2019, we committed to a contemplated restructuring initiative intended to mitigate stranded costs associated with the spin-off of our animal health business and to rationalize operations and to provide expense efficiencies. These restructuring activities were completed in 2021.

During the three and six months ended June 26, 2021, we recorded restructuring costs of $1 million and $4 million, respectively. As of June 25, 2022 and December 25, 2021, the remaining accrued balance for restructuring costs was $1 million and $4 million, respectively.

On August 1, 2022, we committed to a restructuring plan focused on funding the priorities of the strategic plan and streamlining operations and other initiatives to increase efficiency. We expect to record restructuring charges in 2022 and 2023, however an estimate of the amount of these charges has not yet been determined. Any restructuring charges are expected primarily to include severance pay and facility-related costs.

Note 14 – Earnings Per Share

Basic earnings per share is computed by dividing net income attributable to Henry Schein, Inc. by the weighted-average number of common shares outstanding for the period. Our diluted earnings per share is computed similarly to basic earnings per share, except that it reflects the effect of common shares issuable for presently unvested restricted stock and RSUs and upon exercise of stock options using the treasury stock method in periods in which they have a dilutive effect.

A reconciliation of shares used in calculating earnings per basic and diluted share follows:

	Three Months Ended		Six Months Ended	
	June 25, 2022	June 26, 2021	June 25, 2022	June 26, 2021
Basic	137,350,488	140,358,428	137,323,076	141,316,258
Effect of dilutive securities:				
Stock options, restricted stock and restricted stock units	1,518,576	1,298,455	1,732,129	1,221,648
Diluted	138,869,064	141,656,883	139,055,205	142,537,906

The number of antidilutive securities that were excluded from the calculation of diluted weighted average common shares outstanding are as follows:

	Three Months Ended		Six Months Ended	
	June 25, 2022	June 26, 2021	June 25, 2022	June 26, 2021
Stock options	423,786	786,691	250,226	501,648
Restricted stock units	51,453	2,621	226,203	1,653
Total anti-dilutive securities excluded from EPS computation	475,239	789,312	476,429	503,301

(in millions, except share and per share data)

Note 15 – Supplemental Cash Flow Information

Cash paid for interest and income taxes was:

	Six Months Ended	
	June 25, 2022	June 26, 2021
Interest	$ 17	$ 14
Income taxes	165	134

During the six months ended June 25, 2022 and June 26, 2021, we had a $12 million and $2 million of non-cash net unrealized gains related to foreign currency hedging activities, respectively.

Note 16 – Related Party Transactions

In connection with the formation of Henry Schein One, LLC, our joint venture with Internet Brands, which was formed on July 1, 2018, we entered into a ten-year royalty agreement with Internet Brands whereby we will pay Internet Brands approximately $31 million annually for the use of their intellectual property. During the three and six months ended June 25, 2022, we recorded $8 million and $16 million, respectively in connection with costs related to this royalty agreement. During the three and six months ended June 26, 2021, we recorded $8 million and $16 million, respectively, in connection with costs related to this royalty agreement. As of June 25, 2022 and December 25, 2021, Henry Schein One, LLC had a net (payable) receivable balance due (to) from Internet Brands of $(6) million and $9 million, respectively, comprised of amounts related to results of operations and the royalty agreement.

During our normal course of business, we have interests in entities that we account for under the equity accounting method. During the three and six months ended June 25, 2022, we recorded net sales of $16 million and $32 million, respectively, to such entities. During the three and six months ended June 26, 2021, we recorded net sales of $18 million and $33 million, respectively, to such entities. During the three and six months ended June 25, 2022, we purchased $5 million and $10 million, respectively, from such entities. During the three and six months ended June 26, 2021, we purchased $5 million and $9 million, respectively, from such entities. At June 25, 2022 and December 25, 2021, in the aggregate we had $40 million and $45 million, due from our equity affiliates, and $9 million and $9 million due to our equity affiliates, respectively.

Certain of our facilities related to our acquisitions are leased from employees and minority shareholders. These leases are classified as operating leases and have a remaining lease term ranging from 6 months to 10 years. As of June 25, 2022, current and non-current liabilities associated with related party operating leases were $4 million and $17 million, respectively. Related party leases represented 5.4% and 6.1% of the total current and non-current operating lease liabilities.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Note Regarding Forward-Looking Statements

In accordance with the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995, we provide the following cautionary remarks regarding important factors that, among others, could cause future results to differ materially from the forward-looking statements, expectations and assumptions expressed or implied herein. All forward-looking statements made by us are subject to risks and uncertainties and are not guarantees of future performance. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance and achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These statements are generally identified by the use of such terms as "may," "could," "expect," "intend," "believe," "plan," "estimate," "forecast," "project," "anticipate," "to be," "to make" or other comparable terms. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the documents we file with the Securities and Exchange Commission (SEC), including our Annual Report on Form 10-K. Forward looking statements include the overall impact of the Novel Coronavirus Disease 2019 (COVID-19) on us, our results of operations, liquidity and financial condition (including any estimates of the impact on these items), the rate and consistency with which dental and other practices resume or maintain normal operations in the United States and internationally, expectations regarding personal protective equipment ("PPE") and COVID-19 related product sales and inventory levels, whether additional resurgences or variants of the virus will adversely impact the resumption of normal operations, whether vaccine mandates will adversely impact us (by disrupting our workforce and/or business), whether supply chain disruptions will adversely impact our business, the impact of restructuring programs as well as of any future acquisitions, and more generally current expectations regarding performance in current and future periods. Forward looking statements also include the (i) our ability to have continued access to a variety of COVID-19 test types, expectations regarding COVID-19 test sales, demand and inventory levels, as well as the efficacy or relative efficacy of the test results given that the test efficacy has not been, or will not have been, independently verified under normal FDA procedures and (ii) potential for us to distribute the COVID-19 vaccines and ancillary supplies.

Risk factors and uncertainties that could cause actual results to differ materially from current and historical results include, but are not limited to: risks associated with COVID-19 and any variants thereof, as well as other disease outbreaks, epidemics, pandemics, or similar wide-spread public health concerns and other natural disasters; our dependence on third parties for the manufacture and supply of our products; our ability to develop or acquire and maintain and protect new products (particularly technology products) and technologies that achieve market acceptance with acceptable margins; transitional challenges associated with acquisitions, dispositions and joint ventures, including the failure to achieve anticipated synergies/benefits; financial and tax risks associated with acquisitions, dispositions and joint ventures; certain provisions in our governing documents that may discourage third-party acquisitions of us; effects of a highly competitive (including, without limitation, competition from third-party online commerce sites) and consolidating market; the repeal or judicial prohibition on implementation of the Affordable Care Act; changes in the health care industry; risks from expansion of customer purchasing power and multi-tiered costing structures; increases in shipping costs for our products or other service issues with our third-party shippers; general global and domestic macro-economic and political conditions, including inflation, deflation, fluctuations in the value of the U.S. dollar as compared to foreign currencies, and changes to other economic indicators, international trade agreements, potential trade barriers and terrorism; failure to comply with existing and future regulatory requirements; risks associated with the EU Medical Device Regulation; failure to comply with laws and regulations relating to health care fraud or other laws and regulations; failure to comply with laws and regulations relating to the collection, storage and processing of sensitive personal information or standards in electronic health records or transmissions; changes in tax legislation; risks related to product liability, intellectual property and other claims; litigation risks; new or unanticipated litigation developments and the status of litigation matters; risks associated with customs policies or legislative import restrictions; cyberattacks or other privacy or data security breaches; risks associated with our global operations; our dependence on our senior management, employee hiring and retention, and our relationships with customers, suppliers and manufacturers; and disruptions in financial markets. The order in which these factors appear should not be construed to indicate their relative importance or priority.

We caution that these factors may not be exhaustive and that many of these factors are beyond our ability to control or predict. Accordingly, any forward-looking statements contained herein should not be relied upon as a prediction of actual results. We undertake no duty and have no obligation to update forward-looking statements except as required by law.

Where You Can Find Important Information

We may disclose important information through one or more of the following channels: SEC filings, public conference calls and webcasts, press releases, the investor relations page of our website (www.henryschein.com) and the social media channels identified on the Newsroom page of our website.

Recent Developments

COVID-19 Pandemic

The COVID-19 pandemic negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of global financial markets in 2020 and 2021. The impact of COVID-19 had a material adverse effect on our business, results of operations and cash flows in 2020. During the year ended December 25, 2021, patient traffic levels returned to levels approaching pre-pandemic levels. Demand for dental products and certain medical products throughout 2021 was driven by sales of PPE, COVID-19 test kits and other COVID-19 related products. During the three months ended March 26, 2022, with the exception of COVID-19 test kits, we experienced a decrease in the sales volume of PPE and COVID-19 related products. During the three months ended June 25, 2022, we continued to experience a decrease in the sales volume of PPE and COVID-19 related products and additionally we began to experience declining demand for COVID-19 test kits. We expect continued volatility in sales of test kits for the remainder of the year.

During the three months ended June 25, 2022, as a result of an increase in COVID-19 variants, we experienced a modest decline in dental patient traffic which we believe is related to an increase in patient appointment cancellations and staff shortages. We are continuing to monitor these trends closely and expect patient traffic to increase again once cases of COVID-19 moderate. In contrast to our dental business, during the three months ended June 25, 2022, our medical business benefited from strong sales in point-of-care diagnostic tests including flu test kits, as well as generic pharmaceuticals and equipment.

Our condensed consolidated financial statements reflect estimates and assumptions made by us that affect, among other things, our goodwill, long-lived asset and definite-lived intangible asset valuation; inventory valuation; equity investment valuation; assessment of the annual effective tax rate; valuation of deferred income taxes and income tax contingencies; the allowance for doubtful accounts; hedging activity; supplier rebates; measurement of compensation cost for certain share-based performance awards and cash bonus plans; and pension plan assumptions. Due to the significant uncertainty surrounding the future impact of COVID-19, our judgments regarding estimates and impairments could change in the future. There is an ongoing risk that the COVID-19 pandemic may again have a material adverse effect on our business, results of operations and cash flows and may result in a material adverse effect on our financial condition and liquidity. However, the extent of the potential impact cannot be reasonably estimated at this time.

Executive-Level Overview

Henry Schein, Inc. is a solutions company for health care professionals powered by a network of people and technology. We believe we are the world's largest provider of health care products and services primarily to office-based dental and medical practitioners, as well as alternate sites of care. We serve more than one million customers worldwide including dental practitioners, laboratories, physician practices, and ambulatory surgery centers, as well as government, institutional health care clinics and other alternate care clinics. We believe that we have a strong brand identity due to our more than 90 years of experience distributing health care products.

We are headquartered in Melville, New York, employ more than 22,000 people (of which approximately 10,600 are based outside of the United States) and have operations or affiliates in 32 countries and territories. Our broad global footprint has evolved over time through our organic success as well as through contribution from strategic acquisitions.

We have established strategically located distribution centers around the world to enable us to better serve our customers and increase our operating efficiency. This infrastructure, together with broad product and service offerings at competitive prices, and a strong commitment to customer service, enables us to be a single source of supply for our customers' needs.

While our primary go-to-market strategy is in our capacity as a distributor, we also manufacture certain dental specialty products and solutions in the areas of implants, orthodontics and endodontics. We have achieved scale in these global businesses primarily through acquisitions as manufacturers of these products typically do not utilize a distribution channel to serve customers.

We conduct our business through two reportable segments: (i) health care distribution and (ii) technology and value-added services. These segments offer different products and services to the same customer base. Our global dental businesses serve office-based dental practitioners, dental laboratories, schools and other institutions. Our global medical businesses serve office-based medical practitioners, ambulatory surgery centers, other alternate-care settings and other institutions.

The health care distribution reportable segment aggregates our global dental and medical operating segments. This segment distributes consumable products, small equipment, laboratory products, large equipment, equipment repair services, branded and generic pharmaceuticals, vaccines, surgical products, dental specialty products (including implant, orthodontic and endodontic products), diagnostic tests, infection-control products, PPE and vitamins.

Our global technology and value-added services business provides software, technology and other value-added services to health care practitioners. Our technology business offerings include practice management software systems for dental and medical practitioners. Our value-added practice solutions include practice consultancy, education, revenue cycle management and financial services on a non-recourse basis, e-services, practice technology, network and hardware services, as well as consulting, and continuing education services for practitioners.

A key element to grow closer to our customers is our One Schein initiative, which is a unified go-to-market approach that enables practitioners to work synergistically with our supply chain, equipment sales and service and other value-added services, allowing our customers to leverage the combined value that we offer through a single program. Specifically, One Schein provides customers with streamlined access to our comprehensive offering of national brand products, our private label products and proprietary specialty products and solutions (including implant, orthodontic and endodontic products). In addition, customers have access to a wide range of services, including software and other value-added services.

Industry Overview

In recent years, the health care industry has increasingly focused on cost containment. This trend has benefited distributors capable of providing a broad array of products and services at low prices. It also has accelerated the growth of HMOs, group practices, other managed care accounts and collective buying groups, which, in addition to their emphasis on obtaining products at competitive prices, tend to favor distributors capable of providing specialized management information support. We believe that the trend towards cost containment has the potential to favorably affect demand for technology solutions, including software, which can enhance the efficiency and facilitation of practice management.

Our operating results in recent years have been significantly affected by strategies and transactions that we undertook to expand our business, domestically and internationally, in part to address significant changes in the health care industry, including consolidation of health care distribution companies, health care reform, trends toward managed care, cuts in Medicare and collective purchasing arrangements.

Our current and future results have been and could be impacted by the COVID-19 pandemic, the current economic environment and continued economic and public health uncertainty. Since the onset of the COVID-19 pandemic in early 2020, we have been carefully monitoring its impact on our global operations and have taken appropriate steps to minimize the risk to our employees. We have seen and expect to continue to see changes in demand trends for some of our products and services, supply chain challenges and labor challenges, as rates of infection fluctuate, new strains or variants of COVID-19 emerge and spread, vaccine uptake and mandates increase and change, governments adapt their approaches to combatting the virus (including, without limitation, vaccine mandates), and local conditions change across geographies. For example, vaccine mandates affecting our workforce, whether imposed through government regulations or contracts with governmental authorities or other customers, could potentially cause staffing shortages if employees choose not to comply as well as other consequences to our business or operations, and managing and tracking vaccination status and ongoing testing for exempt employees could potentially increase our costs, as could addressing inconsistent COVID-19 vaccination mandates. As a result, we expect to see continued volatility through at least the duration of the pandemic.

Industry Consolidation

The health care products distribution industry, as it relates to office-based health care practitioners, is fragmented and diverse. The industry ranges from sole practitioners working out of relatively small offices to group practices or service organizations ranging in size from a few practitioners to a large number of practitioners who have combined or otherwise associated their practices.

Due in part to the inability of office-based health care practitioners to store and manage large quantities of supplies in their offices, the distribution of health care supplies and small equipment to office-based health care practitioners has been characterized by frequent, small quantity orders, and a need for rapid, reliable and substantially complete order fulfillment. The purchasing decisions within an office-based health care practice are typically made by the practitioner or an administrative assistant. Supplies and small equipment are generally purchased from more than one distributor, with one generally serving as the primary supplier.

The trend of consolidation extends to our customer base. Health care practitioners are increasingly seeking to partner, affiliate or combine with larger entities such as hospitals, health systems, group practices or physician hospital organizations. In many cases, purchasing decisions for consolidated groups are made at a centralized or professional staff level; however, orders are delivered to the practitioners' offices.

We believe that consolidation within the industry will continue to result in a number of distributors, particularly those with limited financial, operating and marketing resources, seeking to combine with larger companies that can provide growth opportunities. This consolidation also may continue to result in distributors seeking to acquire companies that can enhance their current product and service offerings or provide opportunities to serve a broader customer base.

Our trend with regard to acquisitions and joint ventures has been to expand our role as a provider of products and services to the health care industry. This trend has resulted in our expansion into service areas that complement our existing operations and provide opportunities for us to develop synergies with, and thus strengthen, the acquired businesses.

As industry consolidation continues, we believe that we are positioned to capitalize on this trend, as we believe we have the ability to support increased sales through our existing infrastructure, although there can be no assurances that we will be able to successfully accomplish this. We also have invested in expanding our sales/marketing infrastructure to include a focus on building relationships with decision makers who do not reside in the office-based practitioner setting.

As the health care industry continues to change, we continually evaluate possible candidates for joint venture or acquisition and intend to continue to seek opportunities to expand our role as a provider of products and services to the health care industry. There can be no assurance that we will be able to successfully pursue any such opportunity or consummate any such transaction, if pursued. If additional transactions are entered into or consummated, we would incur merger and/or acquisition-related costs, and there can be no assurance that the integration efforts associated with any such transaction would be successful.

Aging Population and Other Market Influences

The health care products distribution industry continues to experience growth due to the aging population, increased health care awareness, the proliferation of medical technology and testing, new pharmacology treatments, and expanded third-party insurance coverage, partially offset by the effects of unemployment on insurance coverage. In addition, the physician market continues to benefit from the shift of procedures and diagnostic testing from acute care settings to alternate-care sites, particularly physicians' offices.

According to the U.S. Census Bureau's International Database, in 2022 there are approximately seven million Americans aged 85 years or older, the segment of the population most in need of long-term care and elder-care services. By the year 2050, that number is projected to nearly triple to approximately 19 million. The population aged 65 to 84 years is projected to increase by approximately 27% during the same period.

As a result of these market dynamics, annual expenditures for health care services continue to increase in the United States. We believe that demand for our products and services will grow while continuing to be impacted by current and future operating, economic, and industry conditions. The Centers for Medicare and Medicaid Services, or CMS, published "National Health Expenditure Data" indicating that total national health care spending reached approximately $4.1 trillion in 2020, or 19.7% of the nation's gross domestic product, the benchmark measure for annual production of goods and services in the United States. Health care spending is projected to reach approximately $6.2 trillion in 2028, approximately 19.7% of the nation's projected gross domestic product. The latest projections begin after the latest historical year (2020) and go through 2030.

Government

Certain of our businesses involve the distribution, manufacturing, importation, exportation, marketing and sale of, and/or third party payment for, pharmaceuticals and/or medical devices, and in this regard, we are subject to extensive local, state, federal and foreign governmental laws and regulations, including as applicable to our wholesale distribution of pharmaceuticals and medical devices, manufacturing activities, and as part of our specialty home medical supply business that distributes and sells medical equipment and supplies directly to patients. The federal government and state governments have also increased enforcement activity in the health care sector, particularly in areas of fraud and abuse, anti-bribery and corruption, controlled substances handling, medical device regulations and data privacy and security standards.

In addition, certain of our businesses must operate in compliance with a variety of burdensome and complex billing and record-keeping requirements in order to substantiate claims for payment under federal, state and commercial healthcare reimbursement programs. One of these businesses was recently suspended by CMS from receiving payments from Medicare, although it is permitted to continue to perform and bill for Medicare services. The amounts billed are being deposited in an escrow account pending resolution of an audit. We have not recognized revenue for these services and have currently deferred $13 million in revenue (including $8 million deferred during the six months ended June 25, 2022 and $5 million deferred during the three months ended December 25, 2021).

Government and private insurance programs fund a large portion of the total cost of medical care, and there have been efforts to limit such private and government insurance programs, including efforts, thus far unsuccessful, to seek repeal of the entire United States Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, each enacted in March 2010, (as amended, the "ACA"). In addition, activities to control medical costs, including laws and regulations lowering reimbursement rates for pharmaceuticals, medical devices and/or medical treatments or services, are ongoing. Many of these laws and regulations are subject to change and their evolving implementation may impact our operations and our financial performance.

Our businesses are generally subject to numerous laws and regulations that could impact our financial performance, and failure to comply with such laws or regulations could have a material adverse effect on our business.

A more detailed discussion of governmental laws and regulations is included in Management's Discussion & Analysis of Financial Condition and Results of Operations, contained in our Annual Report on Form 10-K for the fiscal year ended December 25, 2021, filed with the SEC on February 15, 2022.

Results of Operations

The following table summarizes the significant components of our operating results for the three and six months ended June 25, 2022 and June 26, 2021 and cash flows for the six months ended June 25, 2022 and June 26, 2021:

	Three Months Ended		Six Months Ended	
	June 25, 2022	June 26, 2021	June 25, 2022	June 26, 2021
Operating results:				
Net sales	$ 3,030	$ 2,967	$ 6,209	$ 5,892
Cost of sales	2,085	2,076	4,291	4,110
Gross profit	945	891	1,918	1,782
Operating expenses:				
Selling, general and administrative	680	635	1,362	1,249
Depreciation and amortization	45	45	92	89
Restructuring costs	-	1	-	4
Operating income	$ 220	$ 210	$ 464	$ 440
Other expense, net	$ (6)	$ (5)	$ (11)	$ (9)
Net income	167	164	353	339
Net income attributable to Henry Schein, Inc.	160	156	341	322

	Six Months Ended	
	June 25, 2022	June 26, 2021
Cash flows:		
Net cash provided by operating activities	$ 250	$ 222
Net cash used in investing activities	(59)	(341)
Net cash used in financing activities	(195)	(139)

Plans of Restructuring

On November 20, 2019, we committed to a contemplated restructuring initiative intended to mitigate stranded costs associated with the spin-off of our animal health business and to rationalize operations and to provide expense efficiencies. These restructuring activities were completed in 2021.

During the three and six months ended June 26, 2021, we recorded restructuring costs of $1 million and $4 million, respectively. As of June 25, 2022 and December 25, 2021, the remaining accrued balance for restructuring costs was $1 million and $4 million, respectively.

On August 1, 2022, we committed to a restructuring plan focused on funding the priorities of the strategic plan and streamlining operations and other initiatives to increase efficiency. We expect to record restructuring charges in 2022 and 2023, however an estimate of the amount of these charges has not yet been determined. Any restructuring charges are expected primarily to include severance pay and facility-related costs. The expense savings realized from this plan are expected to mainly affect 2023 and beyond.

Table of Contents

Three Months Ended June 25, 2022 Compared to Three Months Ended June 26, 2021

Net Sales

Net sales were as follows:

		June 25, 2022	% of Total		June 26, 2021	% of Total	Increase / (Decrease) $	%
Health care distribution [(1)]								
Dental	$	1,853	61.1%	$	1,912	64.4%	$ (59)	(3.1)%
Medical		996	32.9		902	30.4	94	10.3
Total health care distribution		2,849	94.0		2,814	94.8	35	1.2
Technology and value-added services [(2)]		181	6.0		153	5.2	28	18.1
Total	$	3,030	100.0%	$	2,967	100.0%	$ 63	2.1

(1) Consists of consumable products, small equipment, laboratory products, large equipment, equipment repair services, branded and generic pharmaceuticals, vaccines, surgical products, dental specialty products (including implant, orthodontic and endodontic products), diagnostic tests, infection-control products, PPE and vitamins.

(2) Consists of practice management software and other value-added products, which are distributed primarily to health care providers, practice consultancy, education, revenue cycle management and financial services on a non-recourse basis, e-services, continuing education services for practitioners, consulting and other services.

The 2.1% increase in net sales includes an increase of 4.5% in local currency sales (2.4% increase in internally generated sales and 2.1% growth from acquisitions) partially offset by a decrease of 2.4% related to foreign currency exchange. We estimate that sales of PPE and COVID-19 related products were approximately $259 million, a decrease of 28.8% versus the prior year. Excluding PPE and COVID-19 related products, the estimated increase in internally generated local currency sales was 6.7%.

The 3.1% decrease in dental net sales includes an increase of 0.4% in local currency sales (0.3% decrease in internally generated sales and 0.7% growth from acquisitions) offset by a decrease of 3.5% related to foreign currency exchange. The 0.4% increase in local currency sales was attributable to a decrease in dental consumable merchandise sales of 1.3% (2.2% decrease in internally generated sales and 0.9% growth from acquisitions) and an increase in dental equipment and service sales of 7.0%, all of which was attributable to growth in internally generated sales. Our sales growth in dental merchandise was lower than our sales growth in dental equipment during the three months ended June 25, 2022 due to lower patient traffic related to an increase in patient appointment cancellations compared to the comparable prior-year period as well as a decrease in PPE sales. Dental equipment sales increased in both our North American and international markets, which is primarily attributable to increased demand and strong order backlog. We estimate that our dental business recorded sales of approximately $114 million of PPE and COVID-19 related products, an estimated decrease of 37.2% versus the prior year. Excluding PPE and COVID-19 related products, the estimated increase in internally generated local currency dental sales was 3.5%.

The 10.3% increase in medical net sales includes an increase of 10.6% in local currency sales (6.7% increase in internally generated sales and 3.9% growth from acquisitions), partially offset by a decrease of 0.3% related to foreign currency exchange. We estimate that our medical business recorded sales of approximately $145 million of PPE and COVID-19 related products for the three months ended June 25, 2022, an estimated decrease of 20.4% compared to the prior year. Excluding sales of PPE and COVID-19 related products, the estimated increase in internally generated local currency medical sales was 13.6%.

The 18.1% increase in technology and value-added services net sales includes an increase of 19.6% in local currency sales (10.8% increase in internally generated sales and 8.8% growth from acquisitions) partially offset by a decrease of 1.5% related to foreign currency exchange. During the quarter ended June 25, 2022, the trend for transactional software sales improved compared to the prior year, as we increased the number of users, generating demand for our sales cycle management solutions, and also from cloud-based solutions that drive practice efficiency and patient engagement.

Gross Profit

Gross profit and gross margin percentages by segment and in total were as follows:

	June 25, 2022	Gross Margin %	June 26, 2021	Gross Margin %	Increase $	Increase %
Health care distribution	$ 826	29.0%	$ 786	27.9%	$ 40	5.2%
Technology and value-added services	119	65.9	105	68.9	14	13.0
Total	$ 945	31.2	$ 891	30.0	$ 54	6.2

As a result of different practices of categorizing costs associated with distribution networks throughout our industry, our gross margins may not necessarily be comparable to other distribution companies. Additionally, we realize substantially higher gross margin percentages in our technology and value-added services segment than in our health care distribution segment. These higher gross margins result from being both the developer and seller of software products and services, as well as certain financial services. The software industry typically realizes higher gross margins to recover investments in development.

Within our health care distribution segment, gross profit margins may vary from one period to the next. Changes in the mix of products sold as well as changes in our customer mix have been the most significant drivers affecting our gross profit margin. For example, sales of our private label products achieve gross profit margins that are higher than average total gross profit margins of all products. With respect to customer mix, sales to our large-group customers are typically completed at lower gross margins due to the higher volumes sold as opposed to the gross margin on sales to office-based practitioners, who normally purchase lower volumes at greater frequencies.

Health care distribution gross profit increased $40 million, or 5.2%, primarily due to the increase in net sales discussed above. The overall increase in our health care distribution gross profit includes a $34 million increase in the gross margin rates due to product mix and supplier rebates and $18 million additional gross profit from acquisitions, partially offset by a decrease of $12 million from internally generated operations.

Technology and value-added services gross profit increased $14 million, or 13.0%, due to an $11 million increase in internally generated sales and $5 million additional gross profit from acquisitions, partially offset by a decrease of $2 million from gross margin rates due to product mix. Technology and value-added services gross profit margin decreased to 65.9% from 68.9% primarily due to our continued investment in product development and customer service.

Selling, General and Administrative

Selling, general and administrative expenses by segment and in total were as follows:

	June 25, 2022	% of Respective Net Sales	June 26, 2021	% of Respective Net Sales	Increase $	Increase %
Health care distribution	$ 637	22.4%	$ 604	21.4%	$ 33	5.6%
Technology and value-added services	88	48.5	77	50.1	11	14.4
Total	$ 725	23.9	$ 681	22.9	$ 44	6.6

Selling, general and administrative expenses (including restructuring costs in the three months ended June 26, 2021) increased $44 million, or 6.6%.

The $33 million increase in selling, general and administrative expenses within our health care distribution segment was attributable to an increase of $18 million of operating costs and an increase of $17 million of additional costs from acquired companies, partially offset by a decrease of $1 million in restructuring costs. The $11 million increase in selling, general and administrative expenses within our technology and value-added services segment was attributable to an increase of $6 million of operating costs and an increase of $5 million of additional costs from acquired companies.

As a component of total selling, general and administrative expenses, selling expenses increased $22 million, or 5.4% to $433 million primarily due to an increase in payroll and payroll related costs and travel and convention expenses. As a percentage of net sales, selling expenses increased to 14.3% from 13.8%.

As a component of total selling, general and administrative expenses, general and administrative expenses increased $22 million, or 8.5% to $292 million primarily due to an increase in payroll and payroll related costs and travel and convention expenses. As a percentage of net sales, general and administrative expenses increased to 9.6% from 9.1%.

Other Expense, Net

Other expense, net, was as follows:

	June 25, 2022	June 26, 2021	Variance $	Variance %
Interest income	$ 3	$ 1	$ 2	120.8%
Interest expense	(9)	(7)	(2)	(30.4)
Other, net	-	1	(1)	(90.3)
Other expense, net	$ (6)	$ (5)	$ (1)	(13.3)

Interest income increased $2 million and interest expense increased $2 million primarily due to increased interest rates.

Income Taxes

For the three months ended June 25, 2022 our effective tax rate was 23.8% compared to 23.4% for the prior year period. The difference between our effective tax rates and the federal statutory tax rate for the three months ended June 25, 2022 primarily relates to state and foreign income taxes and interest expense. The difference between our effective tax rate and the federal statutory tax rate for the three months ended June 26, 2021, was primarily due to state and foreign income taxes, interest expense and tax charges and credits associated with legal entity reorganizations.

Table of Contents

Six Months Ended June 25, 2022 Compared to Six Months Ended June 26, 2021

Net Sales

Net sales were as follows:

		June 25, 2022	% of Total		June 26, 2021	% of Total	Increase/(Decrease) $	%
Health care distribution [(1)]								
Dental	$	3,681	59.3%	$	3,701	62.8%	$ (20)	(0.5)%
Medical		2,168	34.9		1,893	32.1	275	14.5
Total health care distribution		5,849	94.2		5,594	94.9	255	4.6
Technology and value-added services [(2)]		360	5.8		298	5.1	62	20.7
Total	$	6,209	100.0%	$	5,892	100.0%	$ 317	5.4

(1) Consists of consumable products, small equipment, laboratory products, large equipment, equipment repair services, branded and generic pharmaceuticals, vaccines, surgical products, dental specialty products (including implant, orthodontic and endodontic products), diagnostic tests, infection-control products, PPE and vitamins.

(2) Consists of practice management software and other value-added products, which are distributed primarily to health care providers, practice consultancy, education, revenue cycle management and financial services on a non-recourse basis, e-services, continuing education services for practitioners, consulting and other services.

The 5.4% increase in net sales includes an increase of 7.3% in local currency revenue (5.0% increase in internally generated revenue and 2.3% growth from acquisitions) partially offset by a decrease of 1.9% related to foreign currency exchange. We estimate that sales for the six months ended June 25, 2022 of PPE and COVID-19 related products were approximately $747 million, an estimated decrease of 10.1% versus the prior year. Excluding PPE and COVID-19 related products, the estimated increase in internally generated local currency sales was 7.5%.

The 0.5% decrease in dental net sales includes an increase of 2.3% in local currency revenue (1.6% increase in internally generated revenue and 0.7% growth from acquisitions) partially offset by a decrease of 2.8% related to foreign currency exchange. The 2.3% increase in local currency sales was attributable to an increase in dental consumable merchandise revenue of 0.5% (0.5% decrease in internally generated revenue and 1.0% growth from acquisitions), and an increase in dental equipment sales and service revenues of 9.4% (9.3% increase in internally generated revenue and 0.1% growth from acquisitions). Our sales growth in dental merchandise was lower than our sales growth in dental equipment during the three months ended June 25, 2022 due to lower patient traffic compared to the comparable prior-year period as well as a decrease in PPE sales. Dental equipment sales increased in both our North American and international markets, which is primarily attributable to increased demand and strong order backlog. We estimate that global dental sales for the six months ended June 25, 2022 of PPE and COVID-19 related products were approximately $258 million, an estimated decrease of 26.6% versus the prior year. Excluding PPE and COVID-19 related products, the estimated increase in internally generated local currency dental sales was 4.4%.

The 14.5% increase in medical net sales is attributable to an increase of 14.7% in local currency growth (10.9% increase in internally generated revenue and 3.8% growth from acquisitions) partially offset by a decrease of 0.2% related to foreign currency exchange. Globally, we estimate our medical business recorded sales of approximately $489 million sales of such PPE and other COVID-19 related products for the six months ended June 25, 2022, an increase of approximately 1.9% compared to the prior year. Excluding PPE and COVID-19 related products, the estimated increase in internally generated local currency medical sales was 14.1%.

The 20.7% increase in technology and value-added services net sales is attributable to an increase of 21.8% in local currency revenue (11.0% increase in internally generated revenue and 10.8% growth from acquisitions) partially offset by a decrease of 1.1% related to foreign currency exchange. During the six months ended June 25, 2022, the trend for transactional software sales improved as we increased the number of users, generating demand for our sales cycle management solutions, and also from cloud-based solutions that drive practice efficiency and patient engagement.

Gross Profit

Gross profit and gross margin percentages by segment and in total were as follows:

	June 25, 2022	Gross Margin %	June 26, 2021	Gross Margin %	Increase $	Increase %
Health care distribution	$ 1,683	28.8%	$ 1,575	28.1%	$ 108	6.9 %
Technology and value-added services	235	65.4	207	69.6	28	13.4
Total	$ 1,918	30.9	$ 1,782	30.2	$ 136	7.7

As a result of different practices of categorizing costs associated with distribution networks throughout our industry, our gross margins may not necessarily be comparable to other distribution companies. Additionally, we realize substantially higher gross margin percentages in our technology and value-added services segment than in our health care distribution segment. These higher gross margins result from being both the developer and seller of software products and services, as well as certain financial services. The software industry typically realizes higher gross margins to recover investments in research and development.

Within our health care distribution segment, gross profit margins may vary from one period to the next. Changes in the mix of products sold as well as changes in our customer mix have been the most significant drivers affecting our gross profit margin. For example, sales of our private label products achieve gross profit margins that are higher than average total gross profit margins of all products. With respect to customer mix, sales to our large-group customers are typically completed at lower gross margins due to the higher volumes sold as opposed to the gross margin on sales to office-based practitioners, who normally purchase lower volumes at greater frequencies.

Health care distribution gross profit increased $108 million, or 6.9% primarily due to the increase in net sales discussed above. In addition, health care distribution gross profit margin benefitted from supplier rebates due to increased purchase volumes compared to the comparable prior-year period. The overall increase in our health care distribution gross profit is attributable to a $46 million increase in gross profit due to the increase in the gross margin rates, $37 million additional gross profit from acquisitions and $25 million increase in internally generated revenue.

Technology and value-added services gross profit increased $28 million, or 13.4%, attributable to an increase of $20 million in internally generated revenue and $14 million additional gross profit from acquisitions, partially offset by a $6 million decrease in gross margin rates. Technology and value-added services gross profit margin decreased to 65.4% from 69.6% primarily due to lower gross margins of recently acquired companies in the business services sector and our continued investment in product development and customer service.

Selling, General and Administrative

Selling, general and administrative expenses by segment and in total were as follows:

	June 25, 2022	% of Respective Net Sales	June 26, 2021	% of Respective Net Sales	Increase $	Increase %
Health care distribution	$ 1,283	21.9%	$ 1,196	21.4%	$ 87	7.4%
Technology and value-added services	171	47.5	146	49.1	25	16.7
Total	$ 1,454	23.4	$ 1,342	22.8	$ 112	8.4

Selling, general and administrative expenses (including restructuring costs) increased $112 million, or 8.4%.

The $87 million increase in selling, general and administrative expenses within our health care distribution segment was attributable to an increase of $53 million of operating costs and an increase of $38 million of additional costs from acquired companies, partially offset by a decrease of $4 million in restructuring costs. The $25 million increase in selling, general and administrative expenses within our technology and value-added services segment was attributable to an increase of $13 million of operating costs and an increase of $12 million of additional costs from acquired companies.

As a component of total selling, general and administrative expenses, selling expenses increased $79 million, or 10.0% to $875 million, primarily due to an increase in payroll and payroll related costs and travel and convention expenses. As a percentage of net sales, selling expenses increased to 14.1% from 13.5%.

As a component of total selling, general and administrative expenses, general and administrative expenses increased $33 million, or 6.1% to $579 million, primarily due to an increase in payroll and payroll related costs and travel and convention expenses. As a percentage of net sales, general and administrative expenses remained consistent at 9.3%.

Other Expense, Net

Other expense, net, was as follows:

	June 25, 2022	June 26, 2021	Variance $	Variance %
Interest income	$ 5	$ 3	$ 2	47.6%
Interest expense	(16)	(13)	(3)	(23.0)
Other, net	-	1	(1)	(110.0)
Other expense, net	$ (11)	$ (9)	$ (2)	(23.6)

Interest income increased $2 million and interest expense increased $3 million primarily due to increased interest rates.

Income Taxes

For the six months ended June 25, 2022, our effective tax rate was 23.9% compared to 24.3% for the prior year period. The difference between our effective tax rate and the federal statutory tax rate for the six months ended June 25, 2022 primarily relates to state and foreign income taxes and interest expense as well as share-based compensation. The difference between our effective tax rate and the federal statutory tax rate for the six months ended June 26, 2021, was primarily due to state and foreign income taxes, interest expense and tax charges and credits associated with legal entity reorganizations.

Liquidity and Capital Resources

Our principal capital requirements have included funding of acquisitions, purchases of additional noncontrolling interests, repayments of debt principal, the funding of working capital needs, purchases of fixed assets and repurchases of common stock (which had been temporarily suspended in April 2020, but were resumed in early March 2021). Working capital requirements generally result from increased sales, special inventory forward buy-in opportunities and payment terms for receivables and payables. Historically, sales have tended to be stronger during the second half of the year and special inventory forward buy-in opportunities have been most prevalent just before the end of the year, and have caused our working capital requirements to be higher from the end of the third quarter to the end of the first quarter of the following year.

We finance our business primarily through cash generated from our operations, revolving credit facilities and debt placements. Please see Note 7 – Debt for further information. Our ability to generate sufficient cash flows from operations is dependent on the continued demand of our customers for our products and services, and access to products and services from our suppliers.

Our business requires a substantial investment in working capital, which is susceptible to fluctuations during the year as a result of inventory purchase patterns and seasonal demands. Inventory purchase activity is a function of sales activity, special inventory forward buy-in opportunities and our desired level of inventory. We anticipate future increases in our working capital requirements.

We finance our business to provide adequate funding for at least 12 months. Funding requirements are based on forecasted profitability and working capital needs, which, on occasion, may change. Consequently, we may change our funding structure to reflect any new requirements.

We believe that our cash and cash equivalents, our ability to access private debt markets and public equity markets, and our available funds under existing credit facilities provide us with sufficient liquidity to meet our currently foreseeable short-term and long-term capital needs.

Net cash provided by operating activities was $250 million for the six months ended June 25, 2022, compared to net cash provided by operating activities of $222 million for the comparable prior year period. The net change of $28 million was primarily attributable to higher net income and increased working capital, specifically a decrease in inventory levels of PPE and COVID-19 related products. These working capital increases were partially offset by reduced accounts payable and accrued expenses.

Net cash used in investing activities was $59 million for the six months ended June 25, 2022, compared to $341 million for the comparable prior year period. The net change of $282 million was primarily attributable to decreased payments for equity investments and business acquisitions.

Net cash used in financing activities was $195 million for the six months ended June 25, 2022, compared to net cash used in financing activities of $139 million for the comparable prior year period. The net change of $56 million was primarily due to reduced net borrowings from debt, partially offset by decreased repurchases of common stock.

The following table summarizes selected measures of liquidity and capital resources:

	June 25, 2022	December 25, 2021
Cash and cash equivalents	$ 108	$ 118
Working capital [(1)]	1,713	1,537
Debt:		
Bank credit lines	$ 85	$ 51
Current maturities of long-term debt	4	11
Long-term debt	769	811
Total debt	$ 858	$ 873
Leases:		
Current operating lease liabilities	$ 74	$ 76
Non-current operating lease liabilities	276	268

(1) Includes $76 million and $138 million of certain accounts receivable which serve as security for U.S. trade accounts receivable securitization at June 25, 2022 and December 25, 2021, respectively.

Our cash and cash equivalents consist of bank balances and investments in money market funds representing overnight investments with a high degree of liquidity.

Accounts receivable days sales outstanding and inventory turns

Our accounts receivable days sales outstanding from operations decreased to 42.2 days as of June 25, 2022 from 42.3 days as of June 26, 2021. During the six months ended June 25, 2022, we wrote off approximately $4 million of fully reserved accounts receivable against our trade receivable reserve. Our inventory turns from operations decreased to 4.6 as of June 25, 2022 from 5.1 as of June 26, 2021. Our working capital accounts may be impacted by current and future economic conditions.

Leases

We have operating and finance leases for corporate offices, office space, distribution and other facilities, vehicles, and certain equipment. Our leases have remaining terms of less than one year to approximately 19 years, some of which may include options to extend the leases for up to 10 years. As of June 25, 2022, our right-of-use assets related to operating leases were $327 million and our current and non-current operating lease liabilities were $74 million and $276 million, respectively.

Stock Repurchases

From March 3, 2003 through June 25, 2022, we repurchased $4.1 billion, or 82,414,390 shares, under our common stock repurchase programs, with $90 million available as of June 25, 2022 for future common stock share repurchases.

Critical Accounting Policies and Estimates

There have been no material changes in our critical accounting policies and estimates from those disclosed in Item 7 of our Annual Report on Form 10-K for the year ended December 25, 2021, except accounting policies adopted as of December 26, 2021, which are discussed in Note 2-Critical Accounting Policies, Accounting Pronouncements Adopted and Recently Issued Accounting Standards of the Notes to the Condensed Consolidated Financial Statements included under Item 1.

Accounting Standards Update

For a discussion of accounting standards updates that have been adopted or will be adopted, see Note 2-Critical Accounting Policies, Accounting Pronouncements Adopted and Recently Issued Accounting Standards of the Notes to the Condensed Consolidated Financial Statements included under Item 1.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our exposure to market risk from that disclosed in Item 7A of our Annual Report on Form 10-K for the year ended December 25, 2021.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based on this evaluation, our management, including our principal executive officer and principal financial officer, concluded that our disclosure controls and procedures were effective as of June 25, 2022, to ensure that all material information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to them as appropriate to allow timely decisions regarding required disclosure and that all such information is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

Changes in Internal Control over Financial Reporting

The continued acquisition integrations and systems implementation activity carried over from prior quarters when considered in the aggregate, represents a material change in our internal control over financial reporting.

During the quarter ended June 25, 2022, post-acquisition integration related activities continued for our dental and medical businesses acquired during prior quarters. These acquisitions, the majority of which utilize separate information and financial accounting systems, have been included in our condensed consolidated financial statements since their respective dates of acquisition. Additionally, we continued systems implementation activities related to the upgrade of the warehouse management system for our Australian dental business.

All continued acquisition integrations and systems implementation activity involve necessary and appropriate change-management controls that are considered in our quarterly assessment of the design and operating effectiveness of our internal control over financial reporting.

Limitations of the Effectiveness of Internal Control

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the internal control system are met. Because of the inherent limitations of any internal control system, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a discussion of Legal Proceedings, see Note 9–Legal Proceedings of the Notes to the Condensed Consolidated Financial Statements included under Item 1.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in Part 1, Item 1A, of our Annual Report on Form 10-K for the year ended December 25, 2021.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases of equity securities by the issuer

Our share repurchase program announced on March 3, 2003, originally allowed us to repurchase up to two million shares pre-stock splits (eight million shares post-stock splits) of our common stock, which represented approximately 2.3% of the shares outstanding at the commencement of the program. Subsequent additional increases totaling $4.1 billion, authorized by our Board of Directors, to the repurchase program provide for a total of $4.2 billion of shares of our common stock to be repurchased under this program.

As of June 25, 2022, we had repurchased approximately $4.1 billion of common stock (82,414,390 shares) under these initiatives, with $90 million available for future common stock share repurchases.

The following table summarizes repurchases of our common stock under our stock repurchase program during the fiscal quarter ended June 25, 2022.

Fiscal Month	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Our Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under Our Program (2)
3/27/2022 through 4/23/2022	-	$ -	-	2,291,215
4/24/2022 through 5/28/2022	613,265	84.12	613,265	1,726,511
5/29/2022 through 6/25/2022	732,132	79.16	732,132	1,170,369
	1,345,397		1,345,397	

(1) All repurchases were executed in the open market under our existing publicly announced authorized program.

(2) The maximum number of shares that may yet be purchased under this program is determined at the end of each month based on the closing price of our common stock at that time. This table excludes shares withheld from employees to satisfy minimum tax withholding requirements for equity-based transactions.

ITEM 5. OTHER INFORMATION

On August 1, 2022, we committed to a restructuring plan focused on funding the priorities of the strategic plan and streamlining operations and other initiatives to increase efficiency. We expect to record restructuring charges in 2022 and 2023, however an estimate of the amount of these charges has not yet been determined. Any restructuring charges are expected primarily to include severance pay and facility-related costs.

Table of Contents

ITEM 6. EXHIBITS

31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.+
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document+
101.SCH	Inline XBRL Taxonomy Extension Schema Document+
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document+
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document+
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document+
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document+
104	The cover page of Henry Schein, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 25, 2022, formatted in Inline XBRL (included within Exhibit 101 attachments).+

+ Filed or furnished herewith.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

Henry Schein, Inc.
(Registrant)

By: /s/ Ronald N. South
Ronald N. South
Senior Vice President and
Chief Financial Officer
(Authorized Signatory and Principal Financial
and Accounting Officer)

Dated: August 2, 2022

EXHIBIT 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Stanley M. Bergman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Henry Schein, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2022

/s/ Stanley M. Bergman

Stanley M. Bergman
Chairman and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ronald N. South, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Henry Schein, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2022

/s/ Ronald N. South
Ronald N. South
Senior Vice President and
Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report on Form 10-Q of Henry Schein, Inc. (the "Company") for the period ending June 25, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stanley M. Bergman, the Chairman and Chief Executive Officer of the Company, and I, Ronald N. South, Senior Vice President and Chief Financial Officer of the Company, do hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

	/s/ Stanley M. Bergman
Dated: August 2, 2022	Stanley M. Bergman Chairman and Chief Executive Officer
Dated: August 2, 2022	/s/ Ronald N. South
	Ronald N. South Senior Vice President and Chief Financial Officer

This certification accompanies each Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.