

**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 27, 2020**

**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**  
(State or other jurisdiction of  
incorporation or organization)

**11-3136595**  
(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

Non-accelerated filer

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 27, 2020, there were 142,767,758 shares of the registrant’s common stock outstanding.

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# HENRY SCHEIN, INC.

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

**HENRY SCHEIN, INC.**

**CONSOLIDATED BALANCE SHEETS**

**(in thousands, except share and per share data)**

|   | June 27,<br>2020<br>(unaudited) | December 28,<br>2019 |
|---|---------------------------------|----------------------|
| <b>ASSETS</b>   |                                 |                      |
| Current assets:   |                                 |                      |
| Cash and cash equivalents   | \$ 296,110                      | \$ 106,097           |
| Accounts receivable, net of reserves of \$80,825 and \$60,002   | 1,101,201                       | 1,246,246            |
| Inventories, net  | 1,406,719                       | 1,428,799            |
| Prepaid expenses and other  | 605,176                         | 445,360              |
| Total current assets  | 3,409,206                       | 3,226,502            |
| Property and equipment, net   | 335,898                         | 329,645              |
| Operating lease right-of-use assets, net  | 211,473                         | 231,662              |
| Goodwill  | 2,471,108                       | 2,462,495            |
| Other intangibles, net  | 527,875                         | 572,878              |
| Investments and other   | 362,565                         | 327,919              |
| Total assets  | \$ 7,318,125                    | \$ 7,151,101         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                                 |                      |
| Current liabilities:  |                                 |                      |
| Accounts payable  | \$ 734,957                      | \$ 880,266           |
| Bank credit lines   | 503,178                         | 23,975               |
| Current maturities of long-term debt  | 109,587                         | 109,849              |
| Operating lease liabilities   | 61,710                          | 65,349               |
| Accrued expenses:   |                                 |                      |
| Payroll and related   | 212,178                         | 265,206              |
| Taxes   | 210,439                         | 165,171              |
| Other   | 475,192                         | 528,553              |
| Total current liabilities   | 2,307,241                       | 2,038,369            |
| Long-term debt  | 515,802                         | 622,908              |
| Deferred income taxes   | 56,925                          | 64,989               |
| Operating lease liabilities   | 163,342                         | 176,267              |
| Other liabilities   | 374,045                         | 331,173              |
| Total liabilities   | 3,417,355                       | 3,233,706            |
| Redeemable noncontrolling interests   | 279,225                         | 287,258              |
| Commitments and contingencies   |                                 |                      |
| Stockholders' equity:   |                                 |                      |
| Preferred stock, \$.01 par value, 1,000,000 shares authorized,<br>none outstanding  | -                               | -                    |
| Common stock, \$.01 par value, 480,000,000 shares authorized,<br>142,438,127 outstanding on June 27, 2020 and<br>143,353,459 outstanding on December 28, 2019 | 1,424                           | 1,434                |
| Additional paid-in capital  | 16,475                          | 47,768               |
| Retained earnings   | 3,172,439                       | 3,116,215            |
| Accumulated other comprehensive loss  | (199,251)                       | (167,373)            |
| Total Henry Schein, Inc. stockholders' equity   | 2,991,087                       | 2,998,044            |
| Noncontrolling interests  | 630,458                         | 632,093              |
| Total stockholders' equity  | 3,621,545                       | 3,630,137            |
| Total liabilities, redeemable noncontrolling interests and stockholders' equity   | \$ 7,318,125                    | \$ 7,151,101         |

See accompanying notes.

**HENRY SCHEIN, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands, except per share data)  
**(unaudited)**

|   | Three Months Ended |                  | Six Months Ended |                  |
|---|--------------------|------------------|------------------|------------------|
|   | June 27,<br>2020   | June 29,<br>2019 | June 27,<br>2020 | June 29,<br>2019 |
| Net sales   | \$ 1,684,399       | \$ 2,447,827     | \$ 4,113,270     | \$ 4,808,095     |
| Cost of sales   | 1,230,105          | 1,680,396        | 2,912,937        | 3,288,974        |
| Gross profit  | 454,294            | 767,431          | 1,200,333        | 1,519,121        |
| Operating expenses:   |                    |                  |                  |                  |
| Selling, general and administrative   | 445,793            | 593,218          | 1,013,180        | 1,167,826        |
| Restructuring costs   | 15,934             | 11,925           | 20,721           | 16,566           |
| Operating income (loss)   | (7,433)            | 162,288          | 166,432          | 334,729          |
| Other income (expense):   |                    |                  |                  |                  |
| Interest income   | 1,997              | 3,654            | 5,187            | 8,425            |
| Interest expense  | (10,486)           | (12,785)         | (18,298)         | (29,086)         |
| Other, net  | (291)              | (1,416)          | (511)            | (1,835)          |
| Income (loss) from continuing operations before taxes,<br>equity in earnings of affiliates and noncontrolling interests | (16,213)           | 151,741          | 152,810          | 312,233          |
| Income tax benefit (expense)  | 950                | (35,880)         | (36,960)         | (75,362)         |
| Equity in earnings of affiliates  | 1,411              | 5,556            | 4,145            | 8,186            |
| Net income (loss) from continuing operations  | (13,852)           | 121,417          | 119,995          | 245,057          |
| Income (loss) from discontinued operations, net of tax  | 585                | (2,221)          | 303              | (11,217)         |
| Net income (loss)   | (13,267)           | 119,196          | 120,298          | 233,840          |
| Less: Net (income) loss attributable to noncontrolling interests  | 2,470              | (4,664)          | (834)            | (9,891)          |
| Plus: Net loss attributable to noncontrolling interests<br>from discontinued operations                                 | -                  | -                | -                | 366              |
| Net income (loss) attributable to Henry Schein, Inc.  | \$ (10,797)        | \$ 114,532       | \$ 119,464       | \$ 224,315       |
| Amounts attributable to Henry Schein Inc.:  |                    |                  |                  |                  |
| Continuing operations   | \$ (11,382)        | \$ 116,753       | \$ 119,161       | \$ 235,166       |
| Discontinued operations   | 585                | (2,221)          | 303              | (10,851)         |
| Net income (loss) attributable to Henry Schein, Inc.  | \$ (10,797)        | \$ 114,532       | \$ 119,464       | \$ 224,315       |
| <b>Earnings (loss) per share from continuing operations attributable to Henry Schein, Inc.:</b>                         |                    |                  |                  |                  |
| Basic   | \$ (0.08)          | \$ 0.79          | \$ 0.84          | \$ 1.58          |
| Diluted   | \$ (0.08)          | \$ 0.78          | \$ 0.84          | \$ 1.56          |
| <b>Loss per share from discontinued operations attributable to Henry Schein, Inc.:</b>                                  |                    |                  |                  |                  |
| Basic   | \$ -               | \$ (0.01)        | \$ -             | \$ (0.07)        |
| Diluted   | \$ -               | \$ (0.01)        | \$ -             | \$ (0.07)        |
| <b>Earnings (loss) per share attributable to Henry Schein, Inc.:</b>  |                    |                  |                  |                  |
| Basic   | \$ (0.08)          | \$ 0.77          | \$ 0.84          | \$ 1.50          |
| Diluted   | \$ (0.08)          | \$ 0.77          | \$ 0.84          | \$ 1.49          |
| Weighted-average common shares outstanding:   |                    |                  |                  |                  |
| Basic   | 142,350            | 148,148          | 142,654          | 149,310          |
| Diluted   | 142,350            | 149,423          | 142,654          | 150,560          |

See accompanying notes.

**HENRY SCHEIN, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(in thousands)**  
**(unaudited)**

|   | <u>Three Months Ended</u> |                          | <u>Six Months Ended</u>  |                          |
|---|---------------------------|--------------------------|--------------------------|--------------------------|
|   | <u>June 27,<br/>2020</u>  | <u>June 29,<br/>2019</u> | <u>June 27,<br/>2020</u> | <u>June 29,<br/>2019</u> |
| Net income (loss)   | \$ (13,267)               | \$ 119,196               | \$ 120,298               | \$ 233,840               |
| Other comprehensive income (loss), net of tax:                        |                           |                          |                          |                          |
| Foreign currency translation gain (loss)                              | 34,408                    | 10,107                   | (54,904)                 | 16,709                   |
| Unrealized gain (loss) from foreign currency hedging activities       | (4,989)                   | 958                      | 10,154                   | (323)                    |
| Unrealized investment gain (loss)                                     | 2                         | 3                        | (7)                      | 6                        |
| Pension adjustment gain (loss)  | (225)                     | (285)                    | 499                      | 432                      |
| Other comprehensive income (loss), net of tax                         | <u>29,196</u>             | <u>10,783</u>            | <u>(44,258)</u>          | <u>16,824</u>            |
| Comprehensive income  | 15,929                    | 129,979                  | 76,040                   | 250,664                  |
| Comprehensive income (loss) attributable to noncontrolling interests: |                           |                          |                          |                          |
| Net (income) loss   | 2,470                     | (4,664)                  | (834)                    | (9,525)                  |
| Foreign currency translation (gain) loss                              | (799)                     | (849)                    | 12,380                   | (1,405)                  |
| Comprehensive (income) loss attributable to noncontrolling interests  | 1,671                     | (5,513)                  | 11,546                   | (10,930)                 |
| Comprehensive income attributable to Henry Schein, Inc.               | <u>\$ 17,600</u>          | <u>\$ 124,466</u>        | <u>\$ 87,586</u>         | <u>\$ 239,734</u>        |

See accompanying notes.

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

|   | Common Stock<br>\$.01 Par Value |          | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Noncontrolling<br>Interests | Total<br>Stockholders'<br>Equity |
|---|---------------------------------|----------|----------------------------------|----------------------|---|-----------------------------|----------------------------------|
|   | Shares                          | Amount   |                                  |                      |   |                             |                                  |
| Balance, March 28, 2020   | 142,433,360                     | \$ 1,424 | \$ 17,565                        | \$ 3,183,236         | \$ (227,648)                                  | \$ 631,215                  | \$ 3,605,792                     |
| Net loss (excluding loss of \$1,678 attributable to Redeemable noncontrolling interests from continuing operations) | -                               | -        | -                                | (10,797)             | -   | (792)                       | (11,589)                         |
| Foreign currency translation gain (excluding gain of \$751 attributable to Redeemable noncontrolling interests)     | -                               | -        | -                                | -                    | 33,609  | 48                          | 33,657                           |
| Unrealized loss from foreign currency hedging activities, net of tax benefit of \$1,744                             | -                               | -        | -                                | -                    | (4,989)                                       | -                           | (4,989)                          |
| Unrealized investment gain, net of tax of \$1   | -                               | -        | -                                | -                    | 2   | -                           | 2                                |
| Pension adjustment loss, net of tax benefit of \$125  | -                               | -        | -                                | -                    | (225)   | -                           | (225)                            |
| Dividends paid  | -                               | -        | -                                | -                    | -   | (8)                         | (8)                              |
| Purchase of noncontrolling interests  | -                               | -        | -                                | -                    | -   | (9)                         | (9)                              |
| Change in fair value of redeemable securities   | -                               | -        | (7,489)                          | -                    | -   | -                           | (7,489)                          |
| Initial noncontrolling interests and adjustments related to business acquisitions                                   | -                               | -        | -                                | -                    | -   | 4                           | 4                                |
| Stock-based compensation expense  | 7,033                           | -        | 5,156                            | -                    | -   | -                           | 5,156                            |
| Shares withheld for payroll taxes   | (2,266)                         | -        | (132)                            | -                    | -   | -                           | (132)                            |
| Settlement of stock-based compensation awards   | -                               | -        | (273)                            | -                    | -   | -                           | (273)                            |
| Separation of Animal Health business  | -                               | -        | 1,648                            | -                    | -   | -                           | 1,648                            |
| Balance, June 27, 2020  | 142,438,127                     | \$ 1,424 | \$ 16,475                        | \$ 3,172,439         | \$ (199,251)                                  | \$ 630,458                  | \$ 3,621,545                     |

|   | Common Stock<br>\$.01 Par Value |          | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Noncontrolling<br>Interests | Total<br>Stockholders'<br>Equity |
|---|---------------------------------|----------|----------------------------------|----------------------|---|-----------------------------|----------------------------------|
|   | Shares                          | Amount   |                                  |                      |   |                             |                                  |
| Balance, March 30, 2019   | 148,996,092                     | \$ 1,490 | \$ 86,128                        | \$ 2,859,182         | \$ (149,878)                                  | \$ 617,751                  | \$ 3,414,673                     |
| Cumulative impact of adopting new accounting standards  | -                               | -        | -                                | (274)                | -   | -                           | (274)                            |
| Net income (excluding \$3,135 attributable to Redeemable noncontrolling interests from continuing operations)     | -                               | -        | -                                | 114,532              | -   | 1,529                       | 116,061                          |
| Foreign currency translation gain (excluding gain of \$1,027 attributable to Redeemable noncontrolling interests) | -                               | -        | -                                | -                    | 9,258   | (178)                       | 9,080                            |
| Unrealized gain from foreign currency hedging activities, net of tax of \$293                                     | -                               | -        | -                                | -                    | 958   | -                           | 958                              |
| Unrealized investment gain, net of tax of \$0   | -                               | -        | -                                | -                    | 3   | -                           | 3                                |
| Pension adjustment loss, including tax benefit of \$95  | -                               | -        | -                                | -                    | (285)   | -                           | (285)                            |
| Dividends paid  | -                               | -        | -                                | -                    | -   | (146)                       | (146)                            |
| Other adjustments   | -                               | -        | (2)                              | -                    | -   | -                           | (2)                              |
| Change in fair value of redeemable securities   | -                               | -        | 6,692                            | -                    | -   | -                           | 6,692                            |
| Initial noncontrolling interests and adjustments related to business acquisitions                                 | -                               | -        | -                                | -                    | -   | (19)                        | (19)                             |
| Repurchase and retirement of common stock   | (1,182,210)                     | (12)     | (3,717)                          | (73,053)             | -   | -                           | (76,782)                         |
| Stock-based compensation expense  | 11,658                          | -        | 12,662                           | -                    | -   | -                           | 12,662                           |
| Shares withheld for payroll taxes   | (1,694)                         | -        | (123)                            | -                    | -   | -                           | (123)                            |
| Settlement of stock-based compensation awards   | -                               | -        | 32                               | -                    | -   | -                           | 32                               |
| Separation of Animal Health business  | -                               | -        | (36,316)                         | -                    | -   | -                           | (36,316)                         |
| Balance, June 29, 2019  | 147,823,846                     | \$ 1,478 | \$ 65,356                        | \$ 2,900,387         | \$ (139,944)                                  | \$ 618,937                  | \$ 3,446,214                     |

See accompanying notes.



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

|  | Common Stock<br>\$.01 Par Value |          | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Noncontrolling<br>Interests | Total<br>Stockholders'<br>Equity |
|--|---------------------------------|----------|----------------------------------|----------------------|---|-----------------------------|----------------------------------|
|  | Shares                          | Amount   |                                  |                      |   |                             |                                  |
| Balance, December 28, 2019   | 143,353,459                     | \$ 1,434 | \$ 47,768                        | \$ 3,116,215         | \$ (167,373)                                  | \$ 632,093                  | \$ 3,630,137                     |
| Cumulative impact of adopting new accounting standards   | -                               | -        | -                                | (412)                | -   | -                           | (412)                            |
| Net income (excluding \$1,161 attributable to Redeemable noncontrolling interests from continuing operations)      | -                               | -        | -                                | 119,464              | -   | (327)                       | 119,137                          |
| Foreign currency translation loss (excluding loss of \$12,276 attributable to Redeemable noncontrolling interests) | -                               | -        | -                                | -                    | (42,524)                                      | (104)                       | (42,628)                         |
| Unrealized gain from foreign currency hedging activities, net of tax of \$3,346                                    | -                               | -        | -                                | -                    | 10,154  | -                           | 10,154                           |
| Unrealized investment loss, net of tax benefit of \$1  | -                               | -        | -                                | -                    | (7)   | -                           | (7)                              |
| Pension adjustment gain, net of tax of \$199   | -                               | -        | -                                | -                    | 499   | -                           | 499                              |
| Dividends paid   | -                               | -        | -                                | -                    | -   | (507)                       | (507)                            |
| Purchase of noncontrolling interests   | -                               | -        | (1,597)                          | -                    | -   | (701)                       | (2,298)                          |
| Change in fair value of redeemable securities  | -                               | -        | 5,583                            | -                    | -   | -                           | 5,583                            |
| Initial noncontrolling interests and adjustments related to business acquisitions                                  | -                               | -        | -                                | -                    | -   | 4                           | 4                                |
| Repurchase and retirement of common stock  | (1,200,000)                     | (12)     | (10,949)                         | (62,828)             | -   | -                           | (73,789)                         |
| Stock-based compensation expense (credit)  | 514,443                         | 5        | (12,363)                         | -                    | -   | -                           | (12,358)                         |
| Shares withheld for payroll taxes  | (229,775)                       | (3)      | (14,003)                         | -                    | -   | -                           | (14,006)                         |
| Settlement of stock-based compensation awards  | -                               | -        | 387                              | -                    | -   | -                           | 387                              |
| Separation of Animal Health business   | -                               | -        | 1,649                            | -                    | -   | -                           | 1,649                            |
| Balance, June 27, 2020   | 142,438,127                     | \$ 1,424 | \$ 16,475                        | \$ 3,172,439         | \$ (199,251)                                  | \$ 630,458                  | \$ 3,621,545                     |

|  | Common Stock<br>\$.01 Par Value |          | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Noncontrolling<br>Interests | Total<br>Stockholders'<br>Equity |
|--|---------------------------------|----------|----------------------------------|----------------------|---|-----------------------------|----------------------------------|
|  | Shares                          | Amount   |                                  |                      |   |                             |                                  |
| Balance, December 29, 2018   | 151,401,668                     | \$ 1,514 | \$ -                             | \$ 3,208,589         | \$ (248,771)                                  | \$ 580,456                  | \$ 3,541,788                     |
| Cumulative impact of adopting new accounting standards   | -                               | -        | -                                | (274)                | -   | -                           | (274)                            |
| Net income (excluding \$6,513 attributable to Redeemable noncontrolling interests from continuing operations and (\$366) from discontinued operations)             | -                               | -        | -                                | 224,315              | -   | 3,378                       | 227,693                          |
| Foreign currency translation gain (loss) (excluding gain of \$836 attributable to Redeemable noncontrolling interests and \$592 gain from discontinued operations) | -                               | -        | -                                | -                    | 15,304  | (23)                        | 15,281                           |
| Unrealized loss from foreign currency hedging activities, net of tax benefit of \$29   | -                               | -        | -                                | -                    | (323)   | -                           | (323)                            |
| Unrealized investment gain, net of tax of \$1  | -                               | -        | -                                | -                    | 6   | -                           | 6                                |
| Pension adjustment gain, net of tax of \$129   | -                               | -        | -                                | -                    | 432   | -                           | 432                              |
| Dividends paid   | -                               | -        | -                                | -                    | -   | (215)                       | (215)                            |
| Other adjustments  | -                               | -        | (4)                              | -                    | -   | -                           | (4)                              |
| Change in fair value of redeemable securities  | -                               | -        | 4,200                            | -                    | -   | -                           | 4,200                            |
| Initial noncontrolling interests and adjustments related to business acquisitions  | -                               | -        | -                                | -                    | -   | 35,341                      | 35,341                           |
| Adjustment for Animal Health Spin-off  | 87,629                          | 1        | -                                | -                    | -   | -                           | 1                                |
| Repurchase and retirement of common stock  | (3,705,347)                     | (37)     | (36,203)                         | (190,542)            | -   | -                           | (226,782)                        |
| Stock issued upon exercise of stock options  | 2,526                           | -        | 34                               | -                    | -   | -                           | 34                               |
| Stock-based compensation expense   | 212,535                         | 2        | 20,095                           | -                    | -   | -                           | 20,097                           |
| Shares withheld for payroll taxes  | (175,165)                       | (2)      | (10,566)                         | -                    | -   | -                           | (10,568)                         |
| Settlement of stock-based compensation awards  | -                               | -        | 388                              | -                    | -   | -                           | 388                              |
| Share Sale related to Animal Health business   | -                               | -        | 361,090                          | -                    | -   | -                           | 361,090                          |
| Separation of Animal Health business   | -                               | -        | (72,221)                         | (543,158)            | 93,408  | -                           | (521,971)                        |
| Transfer of charges in excess of capital   | -                               | -        | (201,457)                        | 201,457              | -   | -                           | -                                |
| Balance, June 29, 2019   | 147,823,846                     | \$ 1,478 | \$ 65,356                        | \$ 2,900,387         | \$ (139,944)                                  | \$ 618,937                  | \$ 3,446,214                     |

See accompanying notes.

**HENRY SCHEIN, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands, except per share data)  
(unaudited)

|   | Six Months Ended |                  |
|---|------------------|------------------|
|   | June 27,<br>2020 | June 29,<br>2019 |
| <b>Cash flows from operating activities:</b>  |                  |                  |
| Net income  | \$ 120,298       | \$ 233,840       |
| Income (loss) from discontinued operations  | 303              | (11,217)         |
| Income from continuing operations   | 119,995          | 245,057          |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                  |                  |
| Depreciation and amortization   | 96,095           | 89,355           |
| Stock-based compensation (credit) expense   | (12,358)         | 19,772           |
| Provision for losses on trade and other accounts receivable                                 | 28,758           | 3,976            |
| Provision for (benefit from) deferred income taxes  | (32,871)         | 2,284            |
| Equity in earnings of affiliates  | (4,145)          | (8,186)          |
| Distributions from equity affiliates  | 4,220            | 61,357           |
| Changes in unrecognized tax benefits  | 1,380            | 4,435            |
| Other   | 227              | (1,045)          |
| Changes in operating assets and liabilities, net of acquisitions:                           |                  |                  |
| Accounts receivable   | 99,672           | (17,452)         |
| Inventories   | 13,700           | 86,803           |
| Other current assets  | (176,616)        | (62,098)         |
| Accounts payable and accrued expenses   | (138,900)        | (125,472)        |
| Net cash provided by (used in) operating activities from continuing operations              | (843)            | 298,786          |
| Net cash provided by (used in) operating activities from discontinued operations            | 573              | (169,294)        |
| Net cash provided by (used in) operating activities   | (270)            | 129,492          |
| <b>Cash flows from investing activities:</b>  |                  |                  |
| Purchases of fixed assets   | (30,588)         | (30,708)         |
| Payments related to equity investments and business acquisitions, net of cash acquired      | (37,725)         | (622,441)        |
| Proceeds from sale of equity investment   | -                | 10,500           |
| Proceeds from (repayments to) loan to affiliate   | (1,729)          | 15,868           |
| Other   | (11,599)         | (8,762)          |
| Net cash used in investing activities from continuing operations                            | (81,641)         | (635,543)        |
| Net cash used in investing activities from discontinued operations                          | -                | (2,064)          |
| Net cash used in investing activities   | (81,641)         | (637,607)        |
| <b>Cash flows from financing activities:</b>  |                  |                  |
| Net change in bank borrowings   | 479,702          | (709,012)        |
| Proceeds from issuance of long-term debt  | 501,421          | 741              |
| Principal payments for long-term debt   | (609,580)        | (9,038)          |
| Debt issuance costs   | (3,655)          | (391)            |
| Proceeds from issuance of stock upon exercise of stock options                              | -                | 34               |
| Payments for repurchases of common stock  | (73,789)         | (226,782)        |
| Payments for taxes related to shares withheld for employee taxes                            | (13,713)         | (10,527)         |
| Distribution received related to Animal Health Spin-off                                     | -                | 1,120,000        |
| Proceeds related to Animal Health Share Sale  | -                | 361,090          |
| Proceeds from (distributions to) noncontrolling shareholders                                | (3,466)          | 49,398           |
| Acquisitions of noncontrolling interests in subsidiaries                                    | (14,934)         | (2,270)          |
| Proceeds from (payments to) Henry Schein Animal Health Business                             | 64               | (212,957)        |
| Net cash provided by financing activities from continuing operations                        | 262,050          | 360,286          |
| Net cash provided by (used in) financing activities from discontinued operations            | (573)            | 150,274          |
| Net cash provided by financing activities   | 261,477          | 510,560          |
| Effect of exchange rate changes on cash and cash equivalents from continuing operations     | 10,447           | 4,510            |
| Effect of exchange rate changes on cash and cash equivalents from discontinued operations   | -                | (2,240)          |
| Net change in cash and cash equivalents from continuing operations                          | 190,013          | 28,039           |
| Net change in cash and cash equivalents from discontinued operations                        | -                | (23,324)         |
| Cash and cash equivalents, beginning of period  | 106,097          | 56,885           |
| Cash and cash equivalents, end of period  | \$ 296,110       | \$ 84,924        |

See accompanying notes.

**HENRY SCHEIN, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands, except per share data)**  
**(unaudited)**

**Note 1 – Basis of Presentation**

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

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

We consolidate a Variable Interest Entity (“VIE”) where we hold a variable interest and are the primary beneficiary. The VIE is a trade accounts receivable securitization. We are the primary beneficiary because 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. The results of operations and financial position of this VIE are included in our consolidated financial statements.

For the consolidated 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 27, 2020 and December 28, 2019, trade accounts receivable that can only be used to settle obligations of this VIE were \$0 million and \$127 million, respectively, and the liabilities of the VIE where the creditors have recourse to us were \$0 million and \$100 million, respectively.

The consolidated financial statements reflect all adjustments considered necessary for a fair presentation of the consolidated results of operations and financial position for the interim periods presented. All such adjustments are of a normal recurring nature. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 28, 2019.

On February 7, 2019 (the “Distribution Date”), we completed the separation (the “Separation”) and subsequent merger (“Merger”) of our animal health business (the “Henry Schein Animal Health Business”) with Direct Vet Marketing, Inc. (d/b/a Vets First Choice, “Vets First Choice”). All financial information within this Form 10-Q presents the Henry Schein Animal Health Business as a discontinued operation.

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 27, 2020 are not necessarily indicative of the results to be expected for any other interim period or for the year ending December 26, 2020.

In March 2020, the World Health Organization declared the Novel Coronavirus Disease 2019 (“COVID-19”) a pandemic. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of global financial markets. In response, many countries have implemented business closures and restrictions, stay-at-home and social distancing ordinances and similar measures to combat the pandemic, which significantly impacted global business and dramatically reduced demand for dental products and certain medical products in the second quarter and year-to-date of 2020.

**HENRY SCHEIN, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands, except per share data)**  
**(unaudited)**

Our consolidated financial statements reflect estimates and assumptions made by us that affect, among other things, our goodwill, long-lived asset and indefinite-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; vendor 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. In addition, the impact of COVID-19 had a material adverse effect on our business, results of operations and cash flows in the second quarter and year-to-date of 2020. In the latter half of the second quarter, dental and medical practices began to re-open worldwide. However, patient volumes are below pre-COVID-19 levels and a number of regions in the U.S and certain international geographies are experiencing an uptick in COVID-19 cases. As such, there is an ongoing risk that the COVID-19 pandemic will continue to 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.

**HENRY SCHEIN, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands, except per share data)**  
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**Note 2 – Discontinued Operations**

*Animal Health Spin-off*

On the Distribution Date, we completed the Separation and subsequent Merger of the Henry Schein Animal Health Business with Vets First Choice. This was accomplished by a series of transactions among us, Vets First Choice, Covetrus, Inc. (f/k/a HS Spinco, Inc. “Covetrus”), a wholly owned subsidiary of ours prior to the Distribution Date, and HS Merger Sub, Inc., a wholly owned subsidiary of Covetrus (“Merger Sub”). In connection with the Separation, we contributed, assigned and transferred to Covetrus certain applicable assets, liabilities and capital stock or other ownership interests relating to the Henry Schein Animal Health Business. On the Distribution Date, we received a tax-free distribution of \$1,120 million from Covetrus pursuant to certain debt financing incurred by Covetrus. On the Distribution Date and prior to the Animal Health Spin-off, Covetrus issued shares of Covetrus common stock to certain institutional accredited investors (the “Share Sale Investors”) for \$361.1 million (the “Share Sale”). The proceeds of the Share Sale were paid to Covetrus and distributed to us. Subsequent to the Share Sale, we distributed, on a pro rata basis, all of the shares of the common stock of Covetrus held by us to our stockholders of record as of the close of business on January 17, 2019 (the “Animal Health Spin-off”). After the Share Sale and Animal Health Spin-off, Merger Sub consummated the Merger whereby it merged with and into Vets First Choice, with Vets First Choice surviving the Merger as a wholly owned subsidiary of Covetrus. Immediately following the consummation of the Merger, on a fully diluted basis, (i) approximately 63% of the shares of Covetrus common stock were (a) owned by our stockholders and the Share Sale Investors, and (b) held by certain employees of the Henry Schein Animal Health Business (in the form of certain equity awards), and (ii) approximately 37% of the shares of Covetrus common stock were (a) owned by stockholders of Vets First Choice immediately prior to the Merger, and (b) held by certain employees of Vets First Choice (in the form of certain equity awards). After the Separation and the Merger, we no longer beneficially owned any shares of Covetrus common stock and, following the Distribution Date, will not consolidate the financial results of Covetrus for the purpose of our financial reporting. Following the Separation and the Merger, Covetrus was an independent, publicly traded company on the Nasdaq Global Select Market.

In connection with the completion of the Animal Health Spin-off, we entered into a transition services agreement with Covetrus under which we have agreed to provide certain transition services for up to twenty-four months in areas such as information technology, finance and accounting, human resources, supply chain, and real estate and facility services.

As a result of the Separation, the financial position and results of operations of the Henry Schein Animal Health Business are presented as discontinued operations and have been excluded from continuing operations and segment results for all periods presented. The accompanying Notes to the Consolidated Financial Statements have been revised to reflect the effect of the Separation and all prior year balances have been revised accordingly to reflect continuing operations only. The historical statements of Comprehensive Income (Loss) and Shareholders' Equity have not been revised to reflect the Separation and instead reflect the Separation as an adjustment to the balances at June 29, 2019.

**HENRY SCHEIN, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands, except per share data)**  
**(unaudited)**

Summarized financial information for our discontinued operations is as follows:

|   | Three Months Ended |                  | Six Months Ended |                  |
|---|--------------------|------------------|------------------|------------------|
|   | June 27,<br>2020   | June 29,<br>2019 | June 27,<br>2020 | June 29,<br>2019 |
| Net sales   | \$ -               | \$ -             | \$ -             | \$ 319,522       |
| Cost of goods sold  | -                  | -                | -                | 260,097          |
| Gross profit  | -                  | -                | -                | 59,425           |
| Selling, general and administrative   | 80                 | 2,056            | 456              | 66,950           |
| Operating loss  | (80)               | (2,056)          | (456)            | (7,525)          |
| Income tax expense (benefit)  | (665)              | (83)             | (759)            | 4,681            |
| Income (loss) from discontinued operations  | 585                | (2,221)          | 303              | (11,217)         |
| Net loss attributable to noncontrolling interests                                 | -                  | -                | -                | 366              |
| Net income (loss) from discontinued operations attributable to Henry Schein, Inc. | 585                | (2,221)          | 303              | (10,851)         |

The operating loss from discontinued operations for the six months ended June 27, 2020 was primarily attributable to transaction costs directly related to the Animal Health Spin-off. See Note 19-Related Party Transactions for additional information.

The net income from discontinued operations for the three and six months ended June 27, 2020 was primarily attributable to a tax refund received during Q2 2020 by a holding company previously part of our Animal Health legal structure.

The June 29, 2019 financial information above represents activity of the discontinued operations during the quarter and year-to-date through the Distribution Date. The loss from discontinued operations for the three and six months ended June 29, 2019 was primarily attributable to the inclusion of approximately \$2.2 million and \$23.1 million, respectively, of transaction costs directly related to the Animal Health Spin-off. See Note 19-Related Party Transactions for additional information.

**HENRY SCHEIN, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands, except per share data)  
(unaudited)

The following are the amounts of assets and liabilities that were transferred to Covetrus as of February 7, 2019 and December 29, 2018.

|  | <u>February 7,<br/>2019</u> | <u>December 29,<br/>2018</u> |
|--|-----------------------------|------------------------------|
| Cash and cash equivalents                              | \$ 6,815                    | \$ 23,324                    |
| Accounts receivable, net                               | 432,812                     | 434,935                      |
| Inventories, net                                       | 536,637                     | 555,230                      |
| Prepaid expenses and other                             | 120,546                     | 69,525                       |
| Total current assets of discontinued operations        | <u>1,096,810</u>            | <u>1,083,014</u>             |
| Property and equipment, net                            | 69,790                      | 68,177                       |
| Operating lease right-of-use asset, net                | 57,012                      | -                            |
| Goodwill   | 742,931                     | 739,266                      |
| Other intangibles, net                                 | 205,793                     | 208,213                      |
| Investments and other                                  | 120,518                     | 118,003                      |
| Total long-term assets of discontinued operations      | <u>1,196,044</u>            | <u>1,133,659</u>             |
| Total assets of discontinued operations                | <u>\$ 2,292,854</u>         | <u>\$ 2,216,673</u>          |
| Accounts payable                                       | \$ 316,162                  | \$ 441,453                   |
| Current maturities of long-term debt                   | 657                         | 675                          |
| Operating lease liabilities                            | 18,951                      | -                            |
| Accrued expenses:                                      |                             |                              |
| Payroll and related                                    | 36,847                      | 36,888                       |
| Taxes  | 24,060                      | 17,552                       |
| Other  | 80,400                      | 81,039                       |
| Total current liabilities of discontinued operations   | <u>477,077</u>              | <u>577,607</u>               |
| Long-term debt   | 1,176,105                   | 23,529                       |
| Deferred income taxes                                  | 17,019                      | 4,352                        |
| Operating lease liabilities                            | 38,668                      | -                            |
| Other liabilities                                      | 29,209                      | 34,572                       |
| Total long-term liabilities of discontinued operations | <u>1,261,001</u>            | <u>62,453</u>                |
| Total liabilities of discontinued operations           | <u>\$ 1,738,078</u>         | <u>\$ 640,060</u>            |
| Redeemable noncontrolling interests                    | <u>\$ 28,270</u>            | <u>\$ 92,432</u>             |

**HENRY SCHEIN, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands, except per share data)**  
**(unaudited)**

**Note 3 – 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 27, 2020, as compared to the critical accounting policies described in Item 8 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 28, 2019, except as follows:

**Accounting Pronouncements Adopted**

In January 2017, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2017-04, “Intangibles-Goodwill and Other” (Topic 350) (“ASU 2017-04”). ASU 2017-04 eliminates step two from the goodwill impairment test, thereby eliminating the requirement to calculate the implied fair value of a reporting unit. ASU 2017-04 requires us to perform our annual goodwill impairment test by comparing the fair value of our reporting units to the carrying value of those units. If the carrying value exceeds the fair value, we will be required to recognize an impairment charge; however, the impairment charge should not exceed the amount of goodwill allocated to such reporting unit. Our adoption of ASU 2017-04 on December 29, 2019, did not have a material impact on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”, which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. We adopted Topic 326 using the modified-retrospective method and recorded an immaterial cumulative-effect adjustment to the opening balance of retained earnings. Based upon the level and makeup of our financial asset portfolio, including accounts receivable, past loan loss activity and current known activity regarding our outstanding loans, the adoption of Topic 326 on December 29, 2019 resulted in a decrease of \$0.4 million to retained earnings.

**Recently Issued Accounting Standards**

In December 2019, the FASB issued ASU No. 2019-12, “Income Taxes” (Topic 740): Simplifying the Accounting for Income Taxes (“ASU 2019-12”). ASU 2019-12 will simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify U.S. GAAP for other areas of Topic 740 by clarifying and amending existing guidance. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020. We do not expect that the requirements of this ASU will have a material impact on our consolidated financial statements.



**HENRY SCHEIN, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands, except per share data)  
(unaudited)

**Note 4 – 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 28, 2019.

*Disaggregation of Revenue*

The following table disaggregates our revenue by segment and geography:

|   | Three Months Ended<br>June 27, 2020 |                   |                     | Six Months Ended<br>June 27, 2020 |                     |                     |
|---|-------------------------------------|-------------------|---------------------|-----------------------------------|---------------------|---------------------|
|   | North<br>America                    | International     | Global              | North<br>America                  | International       | Global              |
| <b>Revenues:</b>                                      |                                     |                   |                     |                                   |                     |                     |
| Health care distribution                              |                                     |                   |                     |                                   |                     |                     |
| Dental  | \$ 515,946                          | \$ 425,346        | \$ 941,292          | \$ 1,404,318                      | \$ 1,012,050        | \$ 2,416,368        |
| Medical   | 596,588                             | 21,222            | 617,810             | 1,374,616                         | 43,882              | 1,418,498           |
| Total health care distribution                        | 1,112,534                           | 446,568           | 1,559,102           | 2,778,934                         | 1,055,932           | 3,834,866           |
| Technology and value-added services                   | 92,927                              | 12,300            | 105,227             | 206,425                           | 30,767              | 237,192             |
| Total excluding Corporate TSA revenues <sup>(1)</sup> | 1,205,461                           | 458,868           | 1,664,329           | 2,985,359                         | 1,086,699           | 4,072,058           |
| Corporate TSA revenues <sup>(1)</sup>                 | -                                   | 20,070            | 20,070              | -                                 | 41,212              | 41,212              |
| Total revenues  | <u>\$ 1,205,461</u>                 | <u>\$ 478,938</u> | <u>\$ 1,684,399</u> | <u>\$ 2,985,359</u>               | <u>\$ 1,127,911</u> | <u>\$ 4,113,270</u> |

|   | Three Months Ended<br>June 29, 2019 |                   |                     | Six Months Ended<br>June 29, 2019 |                     |                     |
|---|-------------------------------------|-------------------|---------------------|-----------------------------------|---------------------|---------------------|
|   | North<br>America                    | International     | Global              | North<br>America                  | International       | Global              |
| <b>Revenues:</b>                                      |                                     |                   |                     |                                   |                     |                     |
| Health care distribution                              |                                     |                   |                     |                                   |                     |                     |
| Dental  | \$ 975,371                          | \$ 625,979        | \$ 1,601,350        | \$ 1,898,877                      | \$ 1,248,853        | \$ 3,147,730        |
| Medical   | 678,358                             | 19,200            | 697,558             | 1,340,653                         | 40,565              | 1,381,218           |
| Total health care distribution                        | 1,653,729                           | 645,179           | 2,298,908           | 3,239,530                         | 1,289,418           | 4,528,948           |
| Technology and value-added services                   | 108,505                             | 16,546            | 125,051             | 207,510                           | 33,139              | 240,649             |
| Total excluding Corporate TSA revenues <sup>(1)</sup> | 1,762,234                           | 661,725           | 2,423,959           | 3,447,040                         | 1,322,557           | 4,769,597           |
| Corporate TSA revenues <sup>(1)</sup>                 | 1,760                               | 22,108            | 23,868              | 3,021                             | 35,477              | 38,498              |
| Total revenues  | <u>\$ 1,763,994</u>                 | <u>\$ 683,833</u> | <u>\$ 2,447,827</u> | <u>\$ 3,450,061</u>               | <u>\$ 1,358,034</u> | <u>\$ 4,808,095</u> |

(1) Corporate TSA revenues represents sales of certain animal health products to Covetrus under the transition services agreement entered into in connection with the Animal Health Spin-off, which we expect to continue through October 2020.

At December 28, 2019, the current portion of contract liabilities of \$70.8 million was reported in Accrued expenses: Other, and \$6.2 million related to non-current contract liabilities were reported in Other liabilities. During the six months ended June 27, 2020, we recognized in revenue \$48.3 million of the amounts that were previously deferred at December 28, 2019. At June 27, 2020, the current and non-current portion of contract liabilities were \$57.4 million and \$6.9 million, respectively.

**HENRY SCHEIN, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands, except per share data)  
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**Note 5 – 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.

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, diagnostic tests, infection-control products and vitamins. Our global dental group serves office-based dental practitioners, dental laboratories, schools and other institutions. Our global medical group serves office-based medical practitioners, ambulatory surgery centers, other alternate-care settings and other institutions. Our global dental and medical groups serve practitioners in 31 countries worldwide.

Our global technology and value-added services group provides software, technology and other value-added services to health care practitioners. Our technology group offerings include practice management software systems for dental and medical practitioners. Our value-added practice solutions include 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:

|  | <b>Three Months Ended</b> |                          | <b>Six Months Ended</b>  |                          |
|--|---------------------------|--------------------------|--------------------------|--------------------------|
|  | <b>June 27,<br/>2020</b>  | <b>June 29,<br/>2019</b> | <b>June 27,<br/>2020</b> | <b>June 29,<br/>2019</b> |
| <b>Net Sales:</b>                                  |                           |                          |                          |                          |
| Health care distribution <sup>(1)</sup>            |                           |                          |                          |                          |
| Dental   | \$ 941,292                | \$ 1,601,350             | \$ 2,416,368             | \$ 3,147,730             |
| Medical  | 617,810                   | 697,558                  | 1,418,498                | 1,381,218                |
| Total health care distribution                     | 1,559,102                 | 2,298,908                | 3,834,866                | 4,528,948                |
| Technology and value-added services <sup>(2)</sup> | 105,227                   | 125,051                  | 237,192                  | 240,649                  |
| Total excluding Corporate TSA revenue              | 1,664,329                 | 2,423,959                | 4,072,058                | 4,769,597                |
| Corporate TSA revenues <sup>(3)</sup>              | 20,070                    | 23,868                   | 41,212                   | 38,498                   |
| Total  | <u>\$ 1,684,399</u>       | <u>\$ 2,447,827</u>      | <u>\$ 4,113,270</u>      | <u>\$ 4,808,095</u>      |

- (1) Consists of consumable products, small equipment, laboratory products, large equipment, equipment repair services, branded and generic pharmaceuticals, vaccines, surgical products, diagnostic tests, infection-control products and vitamins.
- (2) Consists of practice management software and other value-added products, which are distributed primarily to health care providers, and financial services on a non-recourse basis, e-services, continuing education services for practitioners, consulting and other services.
- (3) Corporate TSA revenues represents sales of certain products to Covetrus under the transition services agreement entered into in connection with the Animal Health Spin-off, which we expect to continue through October 2020.

|                                     | <b>Three Months Ended</b> |                          | <b>Six Months Ended</b>  |                          |
|-------------------------------------|---------------------------|--------------------------|--------------------------|--------------------------|
|                                     | <b>June 27,<br/>2020</b>  | <b>June 29,<br/>2019</b> | <b>June 27,<br/>2020</b> | <b>June 29,<br/>2019</b> |
| <b>Operating Income (Loss):</b>     |                           |                          |                          |                          |
| Health care distribution            | \$ (25,347)               | \$ 134,915               | \$ 122,820               | \$ 279,439               |
| Technology and value-added services | 17,914                    | 27,373                   | 43,612                   | 55,290                   |
| Total                               | <u>\$ (7,433)</u>         | <u>\$ 162,288</u>        | <u>\$ 166,432</u>        | <u>\$ 334,729</u>        |

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**Note 6 – Debt***Bank Credit Lines*

Bank credit lines consisted of the following:

|                                    | June 27,<br>2020  | December 28,<br>2019 |
|------------------------------------|-------------------|----------------------|
| Revolving credit agreement         | \$ -              | \$ -                 |
| 364-day credit agreement           | 500,000           | -                    |
| Other short-term bank credit lines | 3,178             | 23,975               |
| Total                              | <u>\$ 503,178</u> | <u>\$ 23,975</u>     |

The increase in the level of borrowings under our bank credit lines as of June 27, 2020 was attributable to potential cash requirements due to the impact of the COVID-19 pandemic.

*Revolving Credit Agreement*

On April 18, 2017, we entered into a \$750 million revolving credit agreement (the “Credit Agreement”), which matures 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. We expect the LIBOR rate to be discontinued at some point during 2021, which will require an amendment to our debt agreements to reflect a new reference rate. 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 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 27, 2020 and December 28, 2019, the borrowings on this revolving credit facility were \$0.0 million and \$0.0 million, respectively. As of June 27, 2020 and December 28, 2019, there were \$9.4 million and \$9.6 million of letters of credit, respectively, provided to third parties under the credit facility.

On April 17, 2020, we amended the Credit Agreement to, among other things, (i) modify the financial covenant from being based on total leverage ratio to net leverage ratio, (ii) adjust the pricing grid to reflect the net leverage ratio calculation, and (iii) increase the maximum maintenance leverage ratio through March 31, 2021.

*364-Day Credit Agreement*

On April 17, 2020, we entered into a new \$700 million 364-day credit agreement, with JPMorgan Chase Bank, N.A. and U.S. Bank National Association as joint lead arrangers and joint bookrunners. This facility matures on April 16, 2021. As of June 27, 2020, the borrowings on this credit facility were \$500 million. We have the ability to borrow the remaining \$200 million on a revolving basis as needed, subject to the terms and conditions of the credit agreement. The interest rate for borrowings under this facility will fluctuate based on our net leverage ratio. At June 27, 2020, the interest rate on this facility was 2.81%. The proceeds from this facility can be used for working capital requirements and general corporate purposes, including, but not limited to, permitted refinancing of existing indebtedness.

*Other Short-Term Credit Lines*

As of June 27, 2020 and December 28, 2019, we had various other short-term bank credit lines available, of which \$3.2 million and \$24 million, respectively, were outstanding. At June 27, 2020 and December 28, 2019, borrowings under all of these credit lines had a weighted average interest rate of 2.86% and 3.45%, respectively.



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The decrease during the quarter ended June 27, 2020 in the weighted average interest rate under all of our credit lines was attributable to the Federal Reserve lowering borrowing rates during March 2020 in response to the COVID-19 pandemic.

*Long-term debt*

Long-term debt consisted of the following:

|  | June 27,<br>2020  | December 28,<br>2019 |
|--|-------------------|----------------------|
| Private placement facilities   | \$ 613,469        | \$ 621,274           |
| U.S. trade accounts receivable securitization  | -                 | 100,000              |
| Note payable due in 2025 with an interest rate of 3.1%<br>at June 27, 2020   | 1,454             | -                    |
| Various collateralized and uncollateralized loans payable with interest,<br>in varying installments through 2023 at interest rates<br>ranging from 2.62% to 4.22% at June 27, 2020 and<br>ranging from 2.56% to 10.5% at December 28, 2019 | 4,548             | 6,089                |
| Finance lease obligations (see Note 7)   | 5,918             | 5,394                |
| Total  | 625,389           | 732,757              |
| Less current maturities  | (109,587)         | (109,849)            |
| Total long-term debt   | <u>\$ 515,802</u> | <u>\$ 622,908</u>    |

*Private Placement Facilities*

On September 15, 2017, we increased our available private placement facilities with three insurance companies to a total facility amount of \$1 billion, and extended the expiration date to September 15, 2020. On June 23, 2020, the expiration date for our private placement facilities was extended through June 23, 2023. These facilities 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 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. On June 29, 2018, we amended and restated the above private placement facilities to, among other things, (i) permit the consummation of the Animal Health Spin-off and (ii) provide for the issuance of notes in Euros, British Pounds and Australian Dollars, in addition to U.S. Dollars. 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.

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The components of our private placement facility borrowings as of June 27, 2020 are presented in the following table (in thousands):

| Date of Borrowing                  | Amount of<br>Borrowing<br>Outstanding | Borrowing<br>Rate | Due Date           |
|------------------------------------|---------------------------------------|-------------------|--------------------|
| September 2, 2010 (1)              | \$ 100,000                            | 3.79%             | September 2, 2020  |
| January 20, 2012 (2)               | 14,286                                | 3.09              | January 20, 2022   |
| January 20, 2012                   | 50,000                                | 3.45              | January 20, 2024   |
| December 24, 2012                  | 50,000                                | 3.00              | December 24, 2024  |
| June 2, 2014                       | 100,000                               | 3.19              | June 2, 2021       |
| June 16, 2017                      | 100,000                               | 3.42              | June 16, 2027      |
| September 15, 2017                 | 100,000                               | 3.52              | September 15, 2029 |
| January 2, 2018                    | 100,000                               | 3.32              | January 2, 2028    |
| Less: Deferred debt issuance costs | (817)                                 |                   |                    |
|                                    | <u>\$ 613,469</u>                     |                   |                    |

(1) During April 2020, we took certain steps to lock-in a lower interest rate to refinance our \$100 million private placement borrowing at 3.79%, coming due on September 2, 2020 with a similar 10 year borrowing at 2.35% maturing on September 2, 2030.

(2) Annual repayments of approximately \$7.1 million for this borrowing commenced on January 20, 2016.

#### *U.S. Trade Accounts Receivable Securitization*

We have a facility agreement with a bank, as agent, 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 has a purchase limit of \$350 million, was scheduled to expire on April 29, 2022. On June 22, 2020, the expiration date for this facility was extended to June 12, 2023. As of June 27, 2020 and December 28, 2019, the borrowings outstanding under this securitization facility were \$0 million and \$100 million, respectively. At June 27, 2020, the interest rate on borrowings under this facility was based on the asset-backed commercial paper rate of 0.57% plus 0.95%, for a combined rate of 1.52%. At December 28, 2019, the interest rate on borrowings under this facility was based on the asset-backed commercial paper rate of 1.90% plus 0.75%, for a combined rate of 2.65%.

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 25 to 45 basis points depending upon program utilization.

Borrowings under this facility are presented as a component of Long-term debt within our consolidated balance sheets.

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**Note 7 – Leases***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 15 years, some of which may include options to extend the leases for up to 10 years. The components of lease expense were as follows:

|   | Three Months Ended |                  | Six Months Ended |                  |
|---|--------------------|------------------|------------------|------------------|
|   | June 27,<br>2020   | June 29,<br>2019 | June 27,<br>2020 | June 29,<br>2019 |
| Operating lease cost: <sup>(1)</sup> <sup>(2)</sup> | \$ 21,991          | \$ 23,798        | \$ 44,070        | \$ 46,433        |
| Finance lease cost:                                 |                    |                  |                  |                  |
| Amortization of right-of-use assets                 | 282                | 260              | 714              | 508              |
| Interest on lease liabilities                       | 20                 | 34               | 57               | 57               |
| <b>Total finance lease cost</b>                     | <b>\$ 302</b>      | <b>\$ 294</b>    | <b>\$ 771</b>    | <b>\$ 565</b>    |

(1) Includes variable lease expenses.

(2) Operating lease cost for three months and six months ended June 27, 2020 include amortization of right-of-use assets of \$0.5 million related to facility leases recorded in “Restructuring costs” within our consolidated statements of income.

Supplemental balance sheet information related to leases is as follows:

|   | June 27,<br>2020  | December 28,<br>2019 |
|---|-------------------|----------------------|
| <b>Operating Leases:</b>                                |                   |                      |
| Operating lease right-of-use assets                     | \$ 211,473        | \$ 231,662           |
| Current operating lease liabilities                     | 61,710            | 65,349               |
| Non-current operating lease liabilities                 | 163,342           | 176,267              |
| <b>Total operating lease liabilities</b>                | <b>\$ 225,052</b> | <b>\$ 241,616</b>    |
| <b>Finance Leases:</b>                                  |                   |                      |
| Property and equipment, at cost                         | \$ 9,557          | \$ 10,268            |
| Accumulated depreciation                                | (3,386)           | (4,581)              |
| Property and equipment, net of accumulated depreciation | <b>\$ 6,171</b>   | <b>\$ 5,687</b>      |
| Current maturities of long-term debt                    | \$ 2,192          | \$ 1,736             |
| Long-term debt  | 3,726             | 3,658                |
| <b>Total finance lease liabilities</b>                  | <b>\$ 5,918</b>   | <b>\$ 5,394</b>      |
| <b>Weighted Average Remaining Lease Term in Years:</b>  |                   |                      |
| Operating leases  | 5.6               | 5.5                  |
| Finance leases  | 4.5               | 5.0                  |
| <b>Weighted Average Discount Rate:</b>                  |                   |                      |
| Operating leases  | 3.3%              | 3.4%                 |
| Finance leases  | 2.0%              | 2.2%                 |

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Supplemental cash flow information related to leases is as follows:

|  | <b>Six Months Ended</b>  |                          |
|--|--------------------------|--------------------------|
|  | <b>June 27,<br/>2020</b> | <b>June 29,<br/>2019</b> |
| <b>Cash paid for amounts included in the measurement of lease liabilities:</b> |                          |                          |
| Operating cash flows for operating leases                                      | \$ 38,579                | \$ 40,210                |
| Operating cash flows for finance leases  | 50                       | 44                       |
| Financing cash flows for finance leases  | 947                      | 592                      |
| <b>Right-of-use assets obtained in exchange for lease obligations:</b>         |                          |                          |
| Operating leases   | \$ 14,926                | \$ 271,268               |
| Finance leases   | 1,814                    | 413                      |

Maturities of lease liabilities are as follows:

|                                    | <b>June 27, 2020</b>        |                           |
|------------------------------------|-----------------------------|---------------------------|
|                                    | <b>Operating<br/>Leases</b> | <b>Finance<br/>Leases</b> |
| 2020                               | \$ 35,286                   | \$ 1,244                  |
| 2021                               | 61,117                      | 1,992                     |
| 2022                               | 42,443                      | 1,141                     |
| 2023                               | 29,236                      | 383                       |
| 2024                               | 20,542                      | 288                       |
| Thereafter                         | 58,589                      | 1,119                     |
| <b>Total future lease payments</b> | <b>247,213</b>              | <b>6,167</b>              |
| Less imputed interest              | (22,161)                    | (249)                     |
| <b>Total</b>                       | <b>\$ 225,052</b>           | <b>\$ 5,918</b>           |

As of June 27, 2020 we have additional operating leases with total lease payments of \$11.5 million for buildings and vehicles that have not yet commenced. These operating leases will commence subsequent to June 27, 2020 with lease terms of two to 10 years.



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**Note 8 – 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 (“ASC”) 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 27, 2020 and the year ended December 28, 2019 are presented in the following table:

|  | <b>June 27,<br/>2020</b> | <b>December 28,<br/>2019</b> |
|--|--------------------------|------------------------------|
| Balance, beginning of period   | \$ 287,258               | \$ 219,724                   |
| Decrease in redeemable noncontrolling interests due to<br>redemptions                              | (12,636)                 | (2,270)                      |
| Increase in redeemable noncontrolling interests due to business<br>acquisitions                    | 25,369                   | 74,865                       |
| Net income attributable to redeemable noncontrolling interests                                     | 1,161                    | 14,838                       |
| Dividends declared   | (4,068)                  | (10,264)                     |
| Effect of foreign currency translation loss attributable to<br>redeemable noncontrolling interests | (12,276)                 | (2,335)                      |
| Change in fair value of redeemable securities  | (5,583)                  | (7,300)                      |
| Balance, end of period   | <u>\$ 279,225</u>        | <u>\$ 287,258</u>            |

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**Note 9 – 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 27,<br>2020 | December 28,<br>2019 |
|---|------------------|----------------------|
| Attributable to Redeemable noncontrolling interests:            |                  |                      |
| Foreign currency translation adjustment                         | \$ (32,614)      | \$ (20,338)          |
| Attributable to noncontrolling interests:                       |                  |                      |
| Foreign currency translation adjustment                         | \$ (635)         | \$ (531)             |
| Attributable to Henry Schein, Inc.:                             |                  |                      |
| Foreign currency translation adjustment                         | \$ (185,696)     | \$ (143,172)         |
| Unrealized gain (loss) from foreign currency hedging activities | 6,122            | (4,032)              |
| Unrealized investment gain (loss)                               | (1)              | 6                    |
| Pension adjustment loss   | (19,676)         | (20,175)             |
| Accumulated other comprehensive loss                            | \$ (199,251)     | \$ (167,373)         |
| Total Accumulated other comprehensive loss                      | \$ (232,500)     | \$ (188,242)         |

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

|   | Three Months Ended |                  | Six Months Ended |                  |
|---|--------------------|------------------|------------------|------------------|
|   | June 27,<br>2020   | June 29,<br>2019 | June 27,<br>2020 | June 29,<br>2019 |
| Net income (loss)   | \$ (13,267)        | \$ 119,196       | \$ 120,298       | \$ 233,840       |
| Foreign currency translation gain (loss)                        | 34,408             | 10,107           | (54,904)         | 16,709           |
| Tax effect  | -                  | -                | -                | -                |
| Foreign currency translation gain (loss)                        | 34,408             | 10,107           | (54,904)         | 16,709           |
| Unrealized gain (loss) from foreign currency hedging activities | (6,733)            | 1,251            | 13,500           | (352)            |
| Tax effect  | 1,744              | (293)            | (3,346)          | 29               |
| Unrealized gain (loss) from foreign currency hedging activities | (4,989)            | 958              | 10,154           | (323)            |
| Unrealized investment gain (loss)                               | 3                  | 3                | (8)              | 7                |
| Tax effect  | (1)                | -                | 1                | (1)              |
| Unrealized investment gain (loss)                               | 2                  | 3                | (7)              | 6                |
| Pension adjustment gain (loss)                                  | (350)              | (380)            | 698              | 561              |
| Tax effect  | 125                | 95               | (199)            | (129)            |
| Pension adjustment gain (loss)                                  | (225)              | (285)            | 499              | 432              |
| Comprehensive income  | \$ 15,929          | \$ 129,979       | \$ 76,040        | \$ 250,664       |

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The increase in the unrealized gain from foreign currency hedging activities during the year ended June 27, 2020 was primarily attributable to a net investment hedge that was entered into during 2019. See Note 15 - Derivatives and Hedging Activities for further information.

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 27, 2020 and six months ended June 29, 2019 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 27,<br>2020   | June 29,<br>2019 | June 27,<br>2020 | June 29,<br>2019 |
| Comprehensive income attributable to  |                    |                  |                  |                  |
| Henry Schein, Inc.  | \$ 17,600          | \$ 124,466       | \$ 87,586        | \$ 239,734       |
| Comprehensive income (loss) attributable to noncontrolling interests            | (744)              | 1,352            | (431)            | 3,356            |
| Comprehensive income (loss) attributable to Redeemable noncontrolling interests | (927)              | 4,161            | (11,115)         | 7,574            |
| Comprehensive income  | \$ 15,929          | \$ 129,979       | \$ 76,040        | \$ 250,664       |

#### Note 10 – 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 hierarchy for determining that 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.

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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 as of June 27, 2020 and December 28, 2019 was estimated at \$1,128.6 million and \$756.7 million, respectively. Factors that we considered when estimating the fair value of our debt include market conditions, such as interest rates and credit spreads.

*Derivative contracts*

Derivative contracts are valued using quoted market prices and significant other observable and unobservable 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 hedging our unfunded non-qualified supplemental 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. See Note 15 for further information.

*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. The details of the changes in Redeemable noncontrolling interests are presented in Note 8.

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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 27, 2020 and December 28, 2019:

|                                     | June 27, 2020 |           |            |            |
|-------------------------------------|---------------|-----------|------------|------------|
|                                     | Level 1       | Level 2   | Level 3    | Total      |
| <b>Assets:</b>                      |               |           |            |            |
| Derivative contracts                | \$ -          | \$ 36,663 | \$ -       | \$ 36,663  |
| Total return swaps                  | -             | 45        | -          | 45         |
| Total assets                        | \$ -          | \$ 36,708 | \$ -       | \$ 36,708  |
| <b>Liabilities:</b>                 |               |           |            |            |
| Derivative contracts                | \$ -          | \$ 2,017  | \$ -       | \$ 2,017   |
| Total liabilities                   | \$ -          | \$ 2,017  | \$ -       | \$ 2,017   |
| Redeemable noncontrolling interests | \$ -          | -         | \$ 279,225 | \$ 279,225 |
| <b>December 28, 2019</b>            |               |           |            |            |
|                                     | Level 1       | Level 2   | Level 3    | Total      |
| <b>Assets:</b>                      |               |           |            |            |
| Derivative contracts                | \$ -          | \$ 567    | \$ -       | \$ 567     |
| Total assets                        | \$ -          | \$ 567    | \$ -       | \$ 567     |
| <b>Liabilities:</b>                 |               |           |            |            |
| Derivative contracts                | \$ -          | \$ 5,795  | \$ -       | \$ 5,795   |
| Total liabilities                   | \$ -          | \$ 5,795  | \$ -       | \$ 5,795   |
| Redeemable noncontrolling interests | \$ -          | -         | \$ 287,258 | \$ 287,258 |

## Note 11 – Business Acquisitions

### Acquisitions

The operating results of all acquisitions are reflected in our financial statements from their respective acquisition dates.

We completed acquisitions during the six months ended June 27, 2020 which were immaterial to our financial statements individually. In the aggregate, these transactions resulted in consideration of \$36.6 million during the six months ended June 27, 2020 related to business combinations, for net assets amounting to \$16.3 million. As of June 27, 2020, we had recorded \$24.1 million of identifiable intangibles, \$29.3 million of goodwill and \$23.7 million of non-controlling interest, related to these acquisitions.

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 consolidated statements of income. For the six months ended June 27, 2020 and June 29, 2019, there were no material adjustments recorded in our consolidated statements of income relating to changes in estimated contingent purchase price liabilities.

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**Note 12 – Plans of Restructuring**

On July 9, 2018, we committed to an initiative to rationalize our operations and provide expense efficiencies. These actions allowed us to execute on our plan to reduce our cost structure and fund new initiatives that drive growth under our 2018 to 2020 strategic plan. This initiative has resulted in the elimination of approximately 4% of our workforce and the closing of certain facilities.

On November 20, 2019, we committed to a contemplated initiative, intended to mitigate stranded costs associated with the Animal Health Spin-off and to rationalize operations and to provide expense efficiencies. These activities were originally expected to be completed by the end of 2020. We are re-assessing that timeline in light of the current business environment brought on by the COVID-19 pandemic.

During the three months ended June 27, 2020 and June 29, 2019, we recorded restructuring costs of \$15.9 million and \$11.9 million. During the six months ended June 27, 2020 and June 29, 2019, we recorded restructuring costs of \$20.7 million and \$16.6 million. The restructuring costs for these periods included costs for severance benefits and facility exit costs. The costs associated with these restructurings are included in a separate line item, “Restructuring costs” within our consolidated statements of income.

The following table shows the net amounts expensed and paid for restructuring costs that were incurred during the six months ended June 27, 2020 and during our 2019 fiscal year and the remaining accrued balance of restructuring costs as of June 27, 2020, which is included in Accrued expenses: Other within our consolidated balance sheets:

|                                | Severance<br>Costs | Facility<br>Closing<br>Costs | Other  | Total     |
|--------------------------------|--------------------|------------------------------|--------|-----------|
| Balance, December 29, 2018     | \$ 29,964          | \$ 1,603                     | \$ 158 | \$ 31,725 |
| Provision                      | 13,741             | 937                          | 27     | 14,705    |
| Payments and other adjustments | (30,794)           | (1,714)                      | (112)  | (32,620)  |
| Balance, December 28, 2019     | \$ 12,911          | \$ 826                       | \$ 73  | \$ 13,810 |
| Provision                      | 16,359             | 4,268                        | 94     | 20,721    |
| Payments and other adjustments | (13,837)           | (4,419)                      | (120)  | (18,376)  |
| Balance, June 27, 2020         | \$ 15,433          | \$ 675                       | \$ 47  | \$ 16,155 |

The following table shows, by reportable segment, the net amounts expensed and paid for restructuring costs that were incurred during the six months ended June 27, 2020 and during our 2019 fiscal year and the remaining accrued balance of restructuring costs as of June 27, 2020:

|                                | Health Care<br>Distribution | Technology and<br>Value-Added<br>Services | Total     |
|--------------------------------|-----------------------------|---|-----------|
| Balance, December 29, 2018     | \$ 30,291                   | \$ 1,434                                  | \$ 31,725 |
| Provision                      | 13,935                      | 770                                       | 14,705    |
| Payments and other adjustments | (30,853)                    | (1,767)                                   | (32,620)  |
| Balance, December 28, 2019     | \$ 13,373                   | \$ 437                                    | \$ 13,810 |
| Provision                      | 19,945                      | 776                                       | 20,721    |
| Payments and other adjustments | (17,778)                    | (598)                                     | (18,376)  |
| Balance, June 27, 2020         | \$ 15,540                   | \$ 615                                    | \$ 16,155 |

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**Note 13 – 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 restricted stock units, 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 27,<br>2020   | June 29,<br>2019 | June 27,<br>2020 | June 29,<br>2019 |
| Basic                                       | 142,350            | 148,148          | 142,654          | 149,310          |
| Effect of dilutive securities:              |                    |                  |                  |                  |
| Restricted stock and restricted stock units | -                  | 1,275            | -                | 1,250            |
| Diluted                                     | 142,350            | 149,423          | 142,654          | 150,560          |

During the three and six months ended June 27, 2020 we excluded 36 and 422 anti-dilutive shares, respectively, from the amount of diluted shares used in the calculation of earnings per share.

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**Note 14 – Income Taxes**

For the six months ended June 27, 2020, our effective tax rate was 24.2% compared to 24.1% for the prior year period. The difference between our effective tax rates and the federal statutory tax rate for the six months ended June 27, 2020 primarily relates to state and foreign income taxes and interest expense, tax charges and credits associated with legal entity reorganizations outside the U.S and a valuation allowance recognized on a portion of a deferred tax asset. The difference between our effective tax rate and the federal statutory tax rate for the six months ended June 29, 2019 primarily relates to state and foreign income taxes and interest expense.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was enacted in response to the COVID-19 pandemic. The CARES Act includes, but is not limited to, certain income tax provisions that modify the Section 163(j) limitation of business interest and Net Operating Loss (“NOL”) carryover and carryback rules. The modifications to Section 163(j) increase the allowable business interest deduction from 30% of adjusted taxable income to 50% of adjusted taxable income for years beginning in 2019 and 2020. The CARES Act eliminated the NOL income limitation for years beginning before 2021 and it extended the carryback period to five years for year losses incurred in 2018, 2019 and 2020. We have analyzed the income tax provisions of the CARES Act and have accounted for the impact in the six months ended June 27, 2020 which did not have a material impact on our consolidated financial statements. There are certain other non-income tax benefits available to us under the CARES Act that require further clarification or interpretation that may affect our consolidated financial statements in the future.

On July 20, 2020, the U.S Internal Revenue Service (the “IRS”) issued final regulations related to the 2017 Tax Cuts and Jobs Act (“Tax Act”). The final regulations concern the global intangible low-taxed income (“GILTI”) and subpart F income provisions of the Tax Act. To provide flexibility to taxpayers, the IRS is permitting the application of these final regulations to prior tax years, if the taxpayer elects to do so. We do not believe the final regulations will have material impact to our consolidated financial statements.

The total amount of unrecognized tax benefits, which are included in “Other liabilities” within our consolidated balance sheets, as of June 27, 2020 was approximately \$110.5 million, of which \$92.6 million 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 consolidated statements of income.

The tax years subject to examination by major tax jurisdictions include the years 2012 and forward by the IRS, as well as the years 2008 and forward for certain states and certain foreign jurisdictions. All tax returns audited by the IRS are officially closed through 2011. We are currently under audit for the years 2012 and 2013. In the quarter ended December 28, 2019, we reached a settlement with the U.S. Competent Authority to resolve certain transfer pricing issues related to 2012 and 2013. For all remaining outstanding issues for 2012 and 2013, we have provided all necessary documentation to the Appellate Division to date and are waiting for responses. We are also in negotiations with the Advanced Pricing Division to reach an agreement on an appropriate transfer pricing methodology. As part of this process, we have submitted documentation with the objective to reach a resolution for 2014-2024 in order to mitigate future transfer pricing audit adjustments. It is possible that the resolution with the IRS may have a material impact on our consolidated financial statements.

The total amounts of interest and penalties are classified as a component of the provision for income taxes. The amount of tax interest expense for the six months ended June 27, 2020, and the comparable prior year period, was approximately \$1.8 million. The total amount of accrued interest is included in “Other liabilities”, and was approximately \$19.1 million as of June 27, 2020 and \$18.0 million as of December 28, 2019. No penalties were accrued for the periods presented.



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**Note 15 – Derivatives and Hedging Activities**

We are exposed to market risks as well as changes in foreign currency exchange rates as measured against the U.S. dollar and each other, and changes to the credit risk of the derivative counterparties. We attempt to minimize these risks by primarily using foreign currency forward contracts and by maintaining counter-party credit limits. These hedging activities provide only limited protection against currency exchange and credit risks. Factors that could influence the effectiveness of our hedging programs include currency markets and availability of hedging instruments and liquidity of the credit markets. All foreign currency forward contracts that we enter into are components of hedging programs and are entered into for the sole purpose of hedging an existing or anticipated currency exposure. We do not enter into such contracts for speculative purposes and we manage our credit risks by diversifying our counterparties, maintaining a strong balance sheet and having multiple sources of capital.

During 2019 we entered into foreign currency forward contracts to hedge a portion of our euro-denominated foreign operations which are designated as net investment hedges. These net investment hedges offset the change in the U.S. dollar value of our investment in certain euro-functional currency subsidiaries due to fluctuating foreign exchange rates. Gains and losses related to these net investment hedges are recorded in Accumulated other comprehensive loss within our consolidated balance sheets. Amounts excluded from the assessment of hedge effectiveness are included in interest expense within our consolidated statements of income. The aggregate notional value of this net investment hedge, which matures on November 16, 2023, is approximately €200 million. During the three and six months ended June 27, 2020 we recognized approximately \$1.2 million and \$2.4 million, respectively, of interest savings as a result of this net investment hedge.

On March 20, 2020, we entered into a total return swap for the purpose of economic hedging our unfunded non-qualified supplemental retirement plan (“SERP”) and our deferred compensation plan (“DCP”). This swap will offset changes in our SERP and DCP liabilities. At the inception, the notional value of the investments in these plans was \$43.4 million. At June 27, 2020, the notional value of the investments in these plans was \$54.0 million. At June 27, 2020 the financing rate for this swap is based on LIBOR of 0.18% plus 0.38%, for a combined rate of 0.56%. From March 20, 2020, the effective date of the swap, to June 27, 2020, we have recorded a gain, within the selling, general and administrative line item in our consolidated statement of income, of approximately \$6.7 million and \$10.3 million, respectively, net of transaction costs, related to this undesignated swap for the three and six months ended June 27, 2020. This gain was offset by the change in fair value adjustment in deferred compensation, resulting in a neutral impact to our results of operations. This swap is expected to be renewed on an annual basis.

Fluctuations in the value of certain foreign currencies as compared to the U.S. dollar may positively or negatively affect our revenues, gross margins, operating expenses and retained earnings, all of which are expressed in U.S. dollars. Where we deem it prudent, we engage in hedging programs using primarily foreign currency forward contracts aimed at limiting the impact of foreign currency exchange rate fluctuations on earnings. We purchase short-term (i.e., generally 18 months or less) foreign currency forward contracts to protect against currency exchange risks associated with intercompany loans due from our international subsidiaries and the payment of merchandise purchases to our foreign suppliers. We do not hedge the translation of foreign currency profits into U.S. dollars, as we regard this as an accounting exposure, not an economic exposure. Our hedging activities have historically not had a material impact on our consolidated financial statements. Accordingly, additional disclosures related to derivatives and hedging activities required by ASC 815 have been omitted.

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**Note 16 – Stock-Based Compensation**

Our accompanying consolidated statements of income reflect pre-tax share-based compensation expense of \$5.2 million (\$4.2 million after-tax) and a credit of \$12.4 million (\$9.4 million after-tax) for the three and six months ended June 27, 2020, respectively. For the three and six months ended June 29, 2019 we recorded pre-tax share-based compensation expense of \$12.7 million (\$9.6 million after-tax) and \$19.8 million (\$15.0 million after-tax), respectively. The \$12.4 million credit for share-based compensation during the six months ended June 27, 2020 reflects our reduced estimate in expected achievement of performance targets resulting from the impact of COVID-19. Due to the significantly lower projected earnings in 2020, we are currently estimating that no performance shares granted under our 2018, 2019 or 2020 Long-Term Incentive Programs under our employee stock incentive plan will ultimately vest.

Our accompanying consolidated statements of cash flows present our stock-based compensation expense as an adjustment to reconcile net income to net cash provided by (used in) operating activities for all periods presented. In the accompanying 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 27, 2020 and June 29, 2019, respectively.

Stock-based compensation represents the cost related to stock-based awards granted to employees and non-employee directors. We measure stock-based compensation at the grant date, based on the estimated fair value of the award, and recognize the cost (net of estimated forfeitures) as compensation expense on a straight-line basis over the requisite service period. Our stock-based compensation expense is reflected in selling, general and administrative expenses in our consolidated statements of income.

Stock-based awards are provided to certain employees and non-employee directors under the terms of our 2020 Stock Incentive Plan (formerly known as the 2013 Stock Incentive Plan), and our 2015 Non-Employee Director Stock Incentive Plan (together, the “Plans”). The Plans are administered by the Compensation Committee of the Board of Directors. Equity-based awards are granted solely in the form of restricted stock/units, with the exception of providing stock options to employees pursuant to certain pre-existing contractual obligations.

Grants of restricted stock/units are stock-based awards granted to recipients with specified vesting provisions. In the case of restricted stock, common stock is delivered on the date of grant, subject to vesting conditions. In the case of restricted stock units, common stock is generally delivered on or following satisfaction of vesting conditions. We issue restricted stock/units that vest solely based on the recipient’s continued service over time (primarily four-year cliff vesting, except for grants made under the 2015 Non-Employee Director Stock Incentive Plan, which are primarily 12-month cliff vesting) and restricted stock/units that vest based on our achieving specified performance measurements and the recipient’s continued service over time (primarily three-year cliff vesting).

With respect to time-based restricted stock/units, we estimate the fair value on the date of grant based on our closing stock price. With respect to performance-based restricted stock/units, 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 of the Board of Directors. Although there is no guarantee that performance targets will be achieved, we estimate the fair value of performance-based restricted stock/units based on our closing stock price at time of grant.

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The Plans provide for adjustments to the performance-based restricted stock/units targets for significant events, including, without limitation, acquisitions, divestitures, new business ventures, certain capital transactions (including share repurchases), restructuring costs, if any, certain litigation settlements or payments, if any, changes in accounting principles or in applicable laws or regulations and foreign exchange fluctuations. 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.

As a result of the Separation, the number of our unvested equity-based awards from previous grants made under our Long-term Incentive Program under the Plans was increased by a factor of approximately 1.2633, along with a corresponding decrease in our price per share.

Total unrecognized compensation cost related to unvested awards as of June 27, 2020 was \$63.3 million, which is expected to be recognized over a weighted-average period of approximately 2.6 years.

The following tables summarize the activity of our unvested restricted stock/units for the six months ended June 27, 2020:

|                                    | <b>Time-Based Restricted Stock/Units</b> |  |                 |                              |
|------------------------------------|--|--|-----------------|------------------------------|
|                                    | Shares/Units                             | Weighted Average<br>Grant Date Fair<br>Value Per Share |                 | Intrinsic Value<br>Per Share |
|                                    |  |  | \$              | \$                           |
| Outstanding at beginning of period | 1,417                                    | \$ 58.72   |                 |                              |
| Granted                            | 379                                      | 60.00  |                 |                              |
| Vested                             | (290)                                    | 66.03  |                 |                              |
| Forfeited                          | (34)                                     | 60.05  |                 |                              |
| Outstanding at end of period       | <u>1,472</u>                             | <u>\$ 57.58</u>  | <u>\$ 56.67</u> |                              |

|                                    | <b>Performance-Based Restricted Stock/Units</b> |  |                 |                              |
|------------------------------------|---|--|-----------------|------------------------------|
|                                    | Shares/Units                                    | Weighted Average<br>Grant Date Fair<br>Value Per Share |                 | Intrinsic Value<br>Per Share |
|                                    |   |  | \$              | \$                           |
| Outstanding at beginning of period | 1,459   | \$ 61.41   |                 |                              |
| Granted                            | (1,105)   | 57.30  |                 |                              |
| Vested                             | (319)   | 67.55  |                 |                              |
| Forfeited                          | (31)  | 57.78  |                 |                              |
| Outstanding at end of period       | <u>4</u>  | <u>\$ 52.62</u>  | <u>\$ 56.67</u> |                              |

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**Note 17 – Supplemental Cash Flow Information**

Cash paid for interest and income taxes was:

|              | Six Months Ended |                  |
|--------------|------------------|------------------|
|              | June 27,<br>2020 | June 29,<br>2019 |
| Interest     | \$ 16,925        | \$ 32,053        |
| Income taxes | 31,553           | 94,429           |

During the six months ended June 27, 2020 and June 29, 2019, we had a \$13.5 million and \$(0.4) million of non-cash net unrealized gain (loss) related to foreign currency hedging activities, respectively.

**Note 18 – Legal Proceedings**

On August 31, 2012, Archer and White Sales, Inc. (“Archer”) filed a complaint against Henry Schein, Inc. as well as Danaher Corporation and its subsidiaries Instrumentarium Dental, Inc., Dental Equipment, LLC, Kavo Dental Technologies, LLC and Dental Imaging Technologies Corporation (collectively, the “Danaher Defendants”) in the U.S. District Court for the Eastern District of Texas, Civil Action No. 2:12-CV-00572-JRG, styled as an antitrust action under Section 1 of the Sherman Act, and the Texas Free Enterprise Antitrust Act. Archer alleges a conspiracy between Henry Schein, an unnamed company and the Danaher Defendants to terminate or limit Archer’s distribution rights. On August 1, 2017, Archer filed an amended complaint, adding Patterson Companies, Inc. (“Patterson”) and Benco Dental Supply Co. (“Benco”) as defendants, and alleging that Henry Schein, Patterson, Benco and Burkhart Dental Supply conspired to fix prices and refused to compete with each other for sales of dental equipment to dental professionals and agreed to enlist their common suppliers, the Danaher Defendants, to join a price-fixing conspiracy and boycott by reducing the distribution territory of, and eventually terminating, their price-cutting competing distributor Archer. Archer seeks damages in an amount to be proved at trial, to be trebled with interest and costs, including attorneys’ fees, jointly and severally, as well as injunctive relief. On October 30, 2017, Archer filed a second amended complaint, to add additional allegations that it believes support its claims. The named parties and causes of action are the same as the August 1, 2017 amended complaint.

On October 1, 2012, we filed a motion for an order: (i) compelling Archer to arbitrate its claims against us; (2) staying all proceedings pending arbitration; and (3) joining the Danaher Defendants’ motion to arbitrate and stay. On May 28, 2013, the Magistrate Judge granted the motions to arbitrate and stayed proceedings pending arbitration. On June 10, 2013, Archer moved for reconsideration before the District Court judge. On December 7, 2016, the District Court Judge granted Archer’s motion for reconsideration and lifted the stay. Defendants appealed the District Court’s order. On December 21, 2017, the U.S. Court of Appeals for the Fifth Circuit affirmed the District Court’s order denying the motions to compel arbitration. On June 25, 2018, the Supreme Court of the United States granted defendants’ petition for writ of certiorari. On October 29, 2018, the Supreme Court heard oral arguments. On January 8, 2019, the Supreme Court issued its published decision vacating the judgment of the Fifth Circuit and remanding the case to the Fifth Circuit for further proceedings consistent with the Supreme Court’s opinion. On April 2, 2019, the District Court stayed the proceeding in the trial court pending resolution by the Fifth Circuit. The Fifth Circuit heard oral argument on May 1, 2019 on whether the case should be arbitrated. The Fifth Circuit issued its opinion on August 14, 2019 affirming the District Court’s order denying defendants’ motions to compel arbitration. Defendants filed a petition for rehearing en banc before the Fifth Circuit. The Fifth Circuit denied that petition. On October 1, 2019, the District Court set the case for trial on February 3, 2020, which was subsequently moved to January 29, 2020. On January 24, 2020 the Supreme Court granted our motion to stay the District Court proceedings, pending the disposition of our petition for writ of certiorari, which was filed on January 31, 2020. Archer conditionally cross petitioned for certiorari on an arbitration issue on March 2, 2020. On June 15, 2020, the Supreme Court granted our petition for writ of certiorari, and denied Archer’s conditional petition for certiorari, and thus the District Court proceedings remain stayed. Patterson and the Danaher Defendants settled with Archer and they have been dismissed from the case with prejudice. Benco is still a defendant and filed a notice of joinder in

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Henry Schein’s motion to compel arbitration with the District Court. We intend to defend ourselves vigorously against this action.

On March 7, 2018, Joseph Salkowitz, individually and on behalf of all others similarly situated, filed a putative class action complaint for violation of the federal securities laws against Henry Schein, Inc., Stanley M. Bergman and Steven Paladino in the U.S. District Court for the Eastern District of New York, Case No. 1:18-cv-01428. The complaint sought to certify a class consisting of all persons and entities who, subject to certain exclusions, purchased Henry Schein securities from March 7, 2013 through February 12, 2018 (the “Class Period”). The complaint alleged, among other things, that the defendants had made materially false and misleading statements about Henry Schein’s business, operations and prospects during the Class Period, thereby causing the plaintiff and members of the purported class to pay artificially inflated prices for Henry Schein securities. Those alleged statements included matters relating to the issues in the *In re Dental Supplies Antitrust Litigation*, which Henry Schein settled and which the court dismissed in June 2019, and in the United States Federal Trade Commission (“FTC”) administrative proceeding, in which an administrative law judge ruled in Henry Schein’s favor in October 2019 after a trial, as described in our prior filings with the SEC. The complaint sought unspecified monetary damages and a jury trial. Pursuant to the provisions of the Private Securities Litigation Reform Act of 1995 (the “PSLRA”), the court appointed lead plaintiff and lead counsel on June 22, 2018 and recaptioned the putative class action as *In re Henry Schein, Inc. Securities Litigation*, under the same case number. Lead plaintiff filed a consolidated class action complaint on September 14, 2018. The consolidated class action complaint asserts similar claims against the same defendants (plus Timothy Sullivan) on behalf of the same putative class of purchasers during the Class Period. It alleges that Henry Schein’s stock price was inflated during that period because Henry Schein had misleadingly portrayed its dental-distribution business “as successfully producing excellent profits while operating in a highly competitive environment” even though, “in reality, [Henry Schein] had engaged for years in collusive and anticompetitive practices in order to maintain Schein’s margins, profits, and market share.” The complaint alleges that the stock price started to fall from August 8, 2017, when the company announced below-expected financial performance that allegedly “revealed that Schein’s poor results were a product of abandoning prior attempts to inflate sales volume and margins through anticompetitive collusion,” through February 13, 2018, after the FTC filed a complaint against Benco, Henry Schein and Patterson alleging that they violated U.S. antitrust laws. The complaint alleges violations of Section 10(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and Rule 10b-5 and Section 20(a) of the Exchange Act. On September 27, 2019, the court issued a decision partially granting and partially denying defendants’ motion to dismiss the securities action. The court dismissed all claims against Messrs. Bergman and Paladino as well as the Section 10(b) claim against Henry Schein to the extent that that claim relied on the Company’s financial results and margins to allege a material misstatement or omission. The court also dismissed the Section 10(b) claim against Henry Schein to the extent that it relied on the Company’s August 8, 2017 disclosure to allege loss causation. The court otherwise denied the motion as to Henry Schein and Mr. Sullivan. Henry Schein and Mr. Sullivan moved for partial reconsideration of the court’s decision. Pursuant to all parties’ request, the court temporarily took the motion off the calendar after it was fully briefed. The parties later agreed to resolve this matter in exchange for a cash payment of \$35 million, which will be covered by the Company’s insurance and will have no earnings impact to the Company. The proposed settlement is subject to various conditions, including court approval. The Court preliminarily approved the proposed settlement on May 5, 2020 and has scheduled a fairness hearing for September 16, 2020.

On May 3, 2018, a purported class action complaint, *Marion Diagnostic Center, LLC, et al. v. Becton, Dickinson, and Co., et al.*, Case No. 3:18-cv-010509, was filed in the U.S. District Court for the Southern District of Illinois against Becton, Dickinson, and Co. (“Becton”); Premier, Inc. (“Premier”), Vizient, Inc. (“Vizient”), Cardinal Health, Inc. (“Cardinal”), Owens & Minor Inc. (“O&M”), Henry Schein, Inc., and Unnamed Becton Distributor Co-Conspirators. The complaint alleges that the defendants entered into a vertical conspiracy to force health care providers into long-term exclusionary contracts that restrain trade in the nationwide markets for conventional and safety syringes and safety IV catheters and inflate the prices of certain Becton products to above-competitive levels. The named plaintiffs seek to represent three separate classes consisting of all health care providers that purchased (i) Becton’s conventional syringes, (ii) Becton’s safety syringes, or (iii) Becton’s safety catheters directly from Becton, Premier, Vizient, Cardinal, O&M or Henry Schein on or after May 3, 2014. The complaint asserts a single

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count under Section 1 of the Sherman Act, and seeks equitable relief, treble damages, reasonable attorneys' fees and costs and expenses, and pre-judgment and post-judgment interest. On June 15, 2018, an amended complaint was filed asserting the same allegations against the same parties and adding McKesson Medical-Surgical, Inc. as a defendant. On November 30, 2018, the District Court granted defendants' motion to dismiss and entered a final judgment, dismissing plaintiffs' complaint with prejudice. On December 27, 2018, plaintiffs appealed the District Court's decision to the Seventh Circuit Court of Appeals. The parties argued the appeal on September 27, 2019. On March 5, 2020, the Seventh Circuit Court of Appeals reversed the District Court's decision. The Seventh Circuit held that plaintiffs failed to adequately allege the necessary conspiracy by the defendants, but should be provided an opportunity to amend their complaint. The Seventh Circuit vacated the District Court's judgment, and remanded the case for further proceedings consistent with its opinion. Plaintiffs' counsel have indicated that they intend to amend their complaint.

On May 29, 2018, an amended complaint was filed in the MultiDistrict Litigation ("MDL") proceeding In Re National Prescription Opiate Litigation (MDL No. 2804; Case No. 17-md-2804) in an action entitled The County of Summit, Ohio et al. v. Purdue Pharma, L.P., et al., Civil Action No. 1:18-op-45090-DAP ("County of Summit Action"), in the U.S. District Court for the Northern District of Ohio, adding Henry Schein, Inc., Henry Schein Medical Systems, Inc. and others as defendants. Summit County alleges that 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 Henry Schein Medical Systems, Inc.) reaped financial rewards by refusing or otherwise failing to monitor appropriately and restrict the improper distribution of those drugs. On October 29, 2019, the Company was dismissed with prejudice from this lawsuit. Henry Schein, working with Summit County, donated \$1 million to a foundation and paid \$250,000 of Summit County's expenses, as described in our prior filing with the SEC.

In addition to the County of Summit Action, Henry Schein and/or one or more of its affiliated companies have currently been named as a defendant in multiple lawsuits (currently less than one-hundred and fifty (150)), which allege claims similar to those alleged in the County of Summit Action. At this time, the only cases set for trial are the action filed by Tucson Medical Center et al., which is currently scheduled for a 30-day trial beginning on June 1, 2021, and the action filed by West Virginia University Hospitals, Inc. et al., which is currently scheduled for a non-jury liability trial on Plaintiffs' public nuisance claims on March 22, 2021. These actions consist of some that have been consolidated within the MDL and are currently abated for discovery purposes, and others which remain pending in state courts and are proceeding independently and outside of the MDL. Of Henry Schein's 2019 revenue of approximately \$10 billion from continuing operations, sales of opioids represented less than one-tenth of 1 percent. Opioids represent a negligible part of our business. We intend to defend ourselves vigorously against these actions.

On September 30, 2019, the City of Hollywood Police Officers Retirement System, individually and on behalf of all others similarly situated, filed a putative class action complaint for violation of the federal securities laws against Henry Schein, Inc., Covetrus, Inc., and Benjamin Shaw and Christine Komola (Covetrus's then Chief Executive Officer and Chief Financial Officer, respectively) in the U.S. District Court for the Eastern District of New York, Case No. 2:19-cv-05530-FB-RLM. The complaint seeks to certify a class consisting of all persons and entities who, subject to certain exclusions, purchased or otherwise acquired Covetrus common stock from February 8, 2019 through August 12, 2019. The case relates to the Animal Health Spin-off and Merger of the Henry Schein Animal Health Business with Vets First Choice in February 2019. The complaint alleges violations of Sections 10(b) and 20(a) of the Exchange Act and SEC Rule 10b-5 and asserts that defendants' statements in the offering documents and after the transaction were materially false and misleading because they purportedly overstated Covetrus's capabilities as to inventory management and supply-chain services, understated the costs of integrating the Henry Schein Animal Health Business and Vets First Choice, understated Covetrus's separation costs from Henry Schein, and understated the impact on earnings from online competition and alternative distribution channels and from the loss of an allegedly large customer in North America just before the Separation and Merger. The complaint seeks unspecified monetary damages and a jury trial. Pursuant to the provisions of the PSLRA, the court appointed lead plaintiff and lead counsel on December 23, 2019. Lead plaintiff filed a Consolidated Class Action

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**(in thousands, except per share data)**  
**(unaudited)**

Complaint on February 21, 2020. Lead plaintiff added Steve Paladino, our Chief Financial Officer, as a defendant in the action. Lead plaintiff filed an Amended Consolidated Class Action Complaint on May 21, 2020, in which it added a claim that Mr. Paladino is a “control person” of Covetrus. We intend to defend ourselves vigorously against this action.

On November 15, 2019, Frank Finazzo filed a putative shareholder derivative action on behalf of Henry Schein, Inc. against various present and former directors and officers of Henry Schein in the U.S. District Court for the Eastern District of New York, Case No. 1:19-cv-6485-LDH-JO. The named defendants in the action are Stanley M. Bergman, Steven Paladino, Timothy J. Sullivan, Barry J. Alperin, Lawrence S. Bacow, Gerald A. Benjamin, James P. Breslawski, Paul Brons, Shira Goodman, Joseph L. Herring, Donald J. Kabat, Kurt Kuehn, Philip A. Laskawy, Anne H. Margulies, Karyn Mashima, Norman S. Matthews, Mark E. Mlotek, Carol Raphael, E. Dianne Rekow, Bradley T. Sheares, and Louis W. Sullivan, with Henry Schein named as a nominal defendant. The Complaint asserts claims under the federal securities laws and state law relating to the allegations in the antitrust actions, the In re Henry Schein, Inc. Securities Litigation, and the City of Hollywood securities class action described above. The complaint seeks declaratory, injunctive, and monetary relief on behalf of Henry Schein. On January 6, 2020, counsel who filed the Finazzo case filed another, virtually identical putative shareholder derivative action on behalf of Henry Schein against the same defendants, asserting the same claims and seeking the same relief. That case, captioned Mark Sloan v. Stanley M. Bergman, et al., is also pending in the U.S. District Court for the Eastern District of New York, Case No. 1:20-cv-0076. On January 24, 2020, the court consolidated the Finazzo and Sloan cases under the new caption In re Henry Schein, Inc. Derivative Litigation, No. 1:19-cv-06485-LDH-JO, and appointed the counsel in these cases as co-lead counsel for the consolidated action. The parties agreed to a resolution of this matter subject to various conditions, including court approval. The contemplated settlement, if finally approved, would involve the adoption of certain procedures but would not involve the payment of any money except a fee to the plaintiffs’ attorneys that is immaterial. The Court preliminarily approved the proposed settlement on June 10, 2020, and has scheduled a fairness hearing for September 22, 2020.

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 27, 2020, 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.

**HENRY SCHEIN, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands, except per share data)**  
**(unaudited)**

**Note 19 – Related Party Transactions**

In connection with the completion of the Animal Health Spin-off during our fiscal year 2019, we entered into a transition services agreement with Covetrus under which we have agreed to provide certain transition services for up to twenty-four months in areas such as information technology, finance and accounting, human resources, supply chain, and real estate and facility services. During the three and six months ended June 27, 2020, we recorded approximately \$4.3 million and \$8.8 million, respectively, of fees for these services. During the three and six months ended June 29, 2019, we recorded approximately \$4.8 million and \$8.3 million, respectively, of fees for these services. Covetrus also purchases certain products from us pursuant to the transition services agreement. During the three and six months ended June 27, 2020, net sales to Covetrus were approximately \$20.1 million and \$41.2 million, respectively. During the three and six months ended June 29, 2019, net sales to Covetrus were approximately \$23.9 million and \$38.5 million, respectively. Sales to Covetrus under the transition services agreement are expected to continue through October 2020. At June 27, 2020 we had \$4.0 million of receivables due from Covetrus and \$0.4 million payable to Covetrus under this transition services agreement.

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 \$31.0 million annually for the use of their intellectual property. During the three and six months ended June 27, 2020, we recorded \$7.8 million and \$15.6 million, respectively in connection with costs related to this royalty agreement. During the three and six months ended June 29, 2019, we recorded \$7.8 million and \$15.6 million, respectively in connection with costs related to this royalty agreement. As of June 27, 2020 and December 28, 2019, Henry Schein One, LLC had a net receivable balance due from Internet Brands of \$15.6 million and \$9.4 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 27, 2020, we recorded net sales of \$7.7 million and \$23.0 million, respectively, to such entities. During the three and six months ended June 29, 2019, we recorded net sales of \$28.7 million and \$45.5 million, respectively, to such entities. During the three and six months ended June 27, 2020, we purchased \$1.7 million and \$4.5 million, respectively, from such entities. During the three and six months ended June 29, 2019, we purchased \$2.2 million and \$5.0 million, respectively, from such entities. At June 27, 2020 and December 28, 2019, we had in aggregate \$67.0 million and \$60.8 million, due from our equity affiliates, and \$6.6 million and \$4.9 million due to our equity affiliates, respectively.



## 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 this Quarterly Report on Form 10-Q, and in particular the risks discussed under the caption "Risk Factors" in Item 1A of this report and those discussed in other 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 the Company, its results of operations, liquidity, and financial condition (including any estimates of the percentage impact on these items), the efficacy and impact of the Company's cost reduction initiatives, the rate at which dental and other practices resume normal operations in the United States and internationally, and whether one or more resurgences of the virus will adversely impact the resumption of normal operations. Forward looking statements also include the Company's ability to make additional testing available, the nature of those tests and the number of tests intended to be made available and the timing for availability, the nature of the target market, 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.

Risk factors and uncertainties that could cause actual results to differ materially from current and historical results include, but are not limited to: effects of a highly competitive and consolidating market; increased competition by third party online commerce sites; our dependence on third parties for the manufacture and supply of our products; our dependence upon sales personnel, customers, suppliers and manufacturers; our dependence on our senior management; fluctuations in quarterly earnings; 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 macro-economic conditions; risks associated with currency fluctuations; risks associated with political and economic uncertainty; disruptions in financial markets; volatility of the market price of our common stock; changes in the health care industry; implementation of health care laws; failure to comply with regulatory requirements and data privacy laws; risks associated with our global operations; risks associated with COVID-19, as well as other disease outbreaks, epidemics, pandemics, or similar wide spread public health concerns and other natural disasters; risks associated with the United Kingdom's withdrawal from the European Union; 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; litigation risks; new or unanticipated litigation developments and the status of litigation matters; the dependence on our continued product development, technical support and successful marketing in the technology segment; our dependence on third parties for certain technologically advanced components; risks from disruption to our information systems; cyberattacks or other privacy or data security breaches; certain provisions in our governing documents that may discourage third-party acquisitions of us; and changes in tax legislation. 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.

## 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](http://www.henryschein.com)) and the social media channels identified on the Newsroom page of our website.

## Recent Developments

### *COVID-19 Pandemic*

In March 2020, the World Health Organization declared the Novel Coronavirus Disease 2019 (“COVID-19”) a pandemic. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of global financial markets. In response, many countries have implemented business closures and restrictions, stay-at-home and social distancing ordinances and similar measures to combat the pandemic, which significantly impacted global business and dramatically reduced demand for dental products and certain medical products in the second quarter and year-to-date of 2020.

Our consolidated financial statements reflect estimates and assumptions made by us that affect, among other things, our goodwill, long-lived asset and indefinite-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; vendor 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. In addition, the impact of COVID-19 had a material adverse effect on our business, results of operations and cash flows in the second quarter of 2020. In the latter half of the second quarter, dental and medical practices began to re-open worldwide. However, patient volumes are below pre-COVID-19 levels and a number of regions in the U.S and certain international geographies are experiencing an uptick in COVID-19 cases. As such, there is an ongoing risk that the COVID-19 pandemic will continue to 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.

As part of a broad-based effort to support plans for the long-term health of Henry Schein’s business and to strengthen the Company’s financial flexibility, Henry Schein has implemented cost reduction measures that include certain reductions in payroll, substantially decreasing capital expenditures, reducing planned corporate spending and eliminating certain non-strategic targeted expenditures. As certain markets have begun to recover we have restored some of our workforce, especially in customer-facing roles. As the COVID-19 pandemic continues to unfold, the Company will continue to evaluate appropriate actions for its business.

### *Corporate Transactions*

On February 7, 2019 (the “Distribution Date”), we completed the separation (the “Separation”) and subsequent merger of our animal health business (the “Henry Schein Animal Health Business”) with Direct Vet Marketing, Inc. (d/b/a Vets First Choice, “Vets First Choice”) (the “Merger”). This was accomplished by a series of transactions among us, Vets First Choice, Covetrus, Inc. (f/k/a HS Spinco, Inc. “Covetrus”), a wholly owned subsidiary of ours prior to the Distribution Date, and HS Merger Sub, Inc., a wholly owned subsidiary of Covetrus (“Merger Sub”). In connection with the Separation, we contributed, assigned and transferred to Covetrus certain applicable assets, liabilities and capital stock or other ownership interests relating to the Henry Schein Animal Health Business. On the Distribution Date, we received a tax-free distribution of \$1,120 million from Covetrus pursuant to certain debt financing incurred by Covetrus. On the Distribution Date and prior to the Animal Health Spin-off, Covetrus issued shares of Covetrus common stock to certain institutional accredited investors (the “Share Sale Investors”) for \$361.1 million (the “Share Sale”). The proceeds of the Share Sale were paid to Covetrus and distributed to us. Subsequent to the Share Sale, we distributed, on a pro rata basis, all of the shares of the common stock of Covetrus held by us to our stockholders of record as of the close of business on January 17, 2019 (the “Animal Health Spin-off”). After the Share Sale and Animal Health Spin-off, Merger Sub consummated the Merger whereby it merged with and into Vets First Choice, with Vets First Choice surviving the Merger as a

wholly owned subsidiary of Covetrus. Immediately following the consummation of the Merger, on a fully diluted basis, (i) approximately 63% of the shares of Covetrus common stock were (a) owned by our stockholders and the Share Sale Investors, and (b) held by certain employees of the Henry Schein Animal Health Business (in the form of certain equity awards), and (ii) approximately 37% of the shares of Covetrus common stock were (a) owned by stockholders of Vets First Choice immediately prior to the Merger, and (b) held by certain employees of Vets First Choice (in the form of certain equity awards). After the Separation and the Merger, we no longer beneficially owned any shares of Covetrus common stock and, following the Distribution Date, will not consolidate the financial results of Covetrus for the purpose of our financial reporting. Following the Separation and the Merger, Covetrus was an independent, publicly traded company on the Nasdaq Global Select Market.

## **Executive-Level Overview**

We believe we are the world's largest provider of health care products and services primarily to office-based dental and medical practitioners. We serve more than one million customers worldwide including dental practitioners and laboratories and physician practices, 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 88 years of experience distributing health care products.

We are headquartered in Melville, New York, employ approximately 19,000 people (of which more than 9,100 are based outside the United States) and have operations or affiliates in 31 countries, including the United States, Australia, Austria, Belgium, Brazil, Canada, Chile, China, the Czech Republic, France, Germany, Hong Kong SAR, Ireland, Israel, Italy, Japan, Liechtenstein, Luxembourg, Malaysia, the Netherlands, New Zealand, Poland, Portugal, Singapore, South Africa, Spain, Sweden, Switzerland, Thailand, United Arab Emirates and the United Kingdom.

We have established strategically located distribution centers 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. Our infrastructure also allows us to provide convenient ordering and rapid, accurate and complete order fulfillment.

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.

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, diagnostic tests, infection-control products and vitamins. Our global dental group serves office-based dental practitioners, dental laboratories, schools and other institutions. Our global medical group serves office-based medical practitioners, ambulatory surgery centers, other alternate-care settings and other institutions.

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

## *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 continue to be impacted by the COVID-19 pandemic, the current economic environment and uncertainty, particularly impacting overall demand for our products and services.

### *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 merger and 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. In response to the COVID-19 pandemic, we have taken a range of actions to preserve cash, including the temporary suspension of significant acquisition activity.

### *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 Data Base, in 2020 there were more than six and a half 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 36% during the same time 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 Projections 2019-2028" indicating that total national health care spending reached approximately \$3.6 trillion in 2018, or 17.7% 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.

### *Government*

Certain of our businesses involve the distribution of pharmaceuticals and medical devices, and in this regard we are subject to extensive local, state, federal and foreign governmental laws and regulations applicable to the distribution and sale of pharmaceuticals and medical devices. Additionally, government and private insurance programs fund a large portion of the total cost of medical care, and there has been an emphasis on efforts to control medical costs, including laws and regulations lowering reimbursement rates for pharmaceuticals, medical devices, and/or medical treatments or services. Also, many of these laws and regulations are subject to change and may impact our financial performance. For example, certain laws and regulations restricting medical supply sales in the United States have been temporarily modified or waived in response to the COVID-19 pandemic. In addition, our businesses are generally subject to numerous other laws and regulations that could impact our financial performance, including securities, antitrust, anti-bribery and anti-kickback, customer interaction transparency, data privacy, data security, price gouging and other laws and regulations, and some of the related rules have been temporarily modified in response to the COVID-19 pandemic. Failure to comply with law 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, contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 28 2019, filed on February 20, 2020.

## Results of Operations

The following table summarizes the significant components of our operating results for the three and six months ended June 27, 2020 and June 29, 2019 and cash flows for the six months ended June 27, 2020 and June 29, 2019 (in thousands):

|  | Three Months Ended |                  | Six Months Ended |                  |
|--|--------------------|------------------|------------------|------------------|
|  | June 27,<br>2020   | June 29,<br>2019 | June 27,<br>2020 | June 29,<br>2019 |
| <b>Operating results:</b>  |                    |                  |                  |                  |
| Net sales  | \$ 1,684,399       | \$ 2,447,827     | \$ 4,113,270     | \$ 4,808,095     |
| Cost of sales  | 1,230,105          | 1,680,396        | 2,912,937        | 3,288,974        |
| Gross profit   | 454,294            | 767,431          | 1,200,333        | 1,519,121        |
| <b>Operating expenses:</b>   |                    |                  |                  |                  |
| Selling, general and administrative  | 445,793            | 593,218          | 1,013,180        | 1,167,826        |
| Restructuring costs  | 15,934             | 11,925           | 20,721           | 16,566           |
| Operating income (loss)  | \$ (7,433)         | \$ 162,288       | \$ 166,432       | \$ 334,729       |
| Other expense, net   | \$ (8,780)         | \$ (10,547)      | \$ (13,622)      | \$ (22,496)      |
| Net income (loss) from continuing operations                                   | (13,852)           | 121,417          | 119,995          | 245,057          |
| Income (loss) from discontinued operations                                     | 585                | (2,221)          | 303              | (10,851)         |
| Net income (loss) attributable to Henry Schein, Inc.                           | (10,797)           | 114,532          | 119,464          | 224,315          |
| <b>Cash flows:</b>   |                    |                  |                  |                  |
| Net cash provided by (used in) operating activities from continuing operations |                    |                  | \$ (843)         | \$ 298,786       |
| Net cash used in investing activities from continuing operations               |                    |                  | (81,641)         | (635,543)        |
| Net cash provided by financing activities from continuing operations           |                    |                  | 262,050          | 360,286          |

## Plans of Restructuring

On July 9, 2018, we committed to an initiative to rationalize our operations and provide expense efficiencies. These actions allowed us to execute on our plan to reduce our cost structure and fund new initiatives that drive growth under our 2018 to 2020 strategic plan. This initiative has resulted in the elimination of approximately 4% of our workforce and the closing of certain facilities.

On November 20, 2019, we committed to a contemplated initiative, intended to mitigate stranded costs associated with the Animal Health Spin-off and to rationalize operations and to provide expense efficiencies. These activities were originally expected to be completed by the end of 2020. We are re-assessing that timeline in light of the current business environment brought on by the COVID-19 pandemic.

During the three months ended June 27, 2020 and June 29, 2019, we recorded restructuring costs of \$15.9 million and \$11.9 million. During the six months ended June 27, 2020 and June 29, 2019, we recorded restructuring costs of \$20.7 million and \$16.6 million. The restructuring costs for these periods included costs for severance benefits and facility exit costs. The costs associated with these restructurings are included in a separate line item, "Restructuring costs" within our consolidated statements of income.

**Three Months Ended June 27, 2020 Compared to Three Months Ended June 29, 2019****Net Sales**

Net sales for the three months ended June 27, 2020 and June 29, 2019 were as follows (in thousands):

|  | June 27,<br>2020    | % of<br>Total | June 29,<br>2019    | % of<br>Total | Decrease            |               |
|--|---------------------|---------------|---------------------|---------------|---------------------|---------------|
|  |                     |               |                     |               | \$                  | %             |
| Health care distribution <sup>(1)</sup>            |                     |               |                     |               |                     |               |
| Dental   | \$ 941,292          | 55.9%         | \$ 1,601,350        | 65.4%         | \$ (660,058)        | (41.2)%       |
| Medical  | 617,810             | 36.7          | 697,558             | 28.5          | (79,748)            | (11.4)        |
| Total health care distribution                     | 1,559,102           | 92.6          | 2,298,908           | 93.9          | (739,806)           | (32.2)        |
| Technology and value-added services <sup>(2)</sup> | 105,227             | 6.2           | 125,051             | 5.1           | (19,824)            | (15.9)        |
| Total excluding Corporate TSA revenue              | 1,664,329           | 98.8          | 2,423,959           | 99.0          | (759,630)           | (31.3)        |
| Corporate TSA revenue <sup>(3)</sup>               | 20,070              | 1.2           | 23,868              | 1.0           | (3,798)             | (15.9)        |
| Total  | <u>\$ 1,684,399</u> | <u>100.0%</u> | <u>\$ 2,447,827</u> | <u>100.0%</u> | <u>\$ (763,428)</u> | <u>(31.2)</u> |

(1) Consists of consumable products, small equipment, laboratory products, large equipment, equipment repair services, branded and generic pharmaceuticals, vaccines, surgical products, diagnostic tests, infection-control products and vitamins.

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

(3) Corporate TSA revenues represents sales of certain products to Covetrus under the transition services agreement entered into in connection with the Animal Health Spin-off, which we expect to continue through October 2020.

The 31.2% decrease in net sales for the three months ended June 27, 2020, due primarily to the COVID-19 pandemic, includes a decrease of 30.3% in local currency revenue (30.5% decrease in internally generated revenue, partially offset by 0.2% growth from acquisitions) and a decrease of 0.9% related to foreign currency exchange. Excluding sales of products under the transition services agreement with Covetrus, our net sales decreased 31.3%, including a decrease in local currency revenue of 30.5% (30.6% decrease in internally generated revenue, partially offset by 0.1% growth from acquisitions) and a decrease of 0.8% related to foreign currency exchange.

The 41.2% decrease in dental net sales for the three months ended June 27, 2020 includes a decrease of 40.0% local currency revenue (40.1% decrease in internally generated revenue, partially offset by 0.1% growth from acquisitions) and a decrease of 1.2% related to foreign currency exchange. The 40.0% decrease in local currency sales was attributable to a decrease in dental consumable merchandise sales of 40.1% (40.3% decrease in internally generated revenue, partially offset by 0.2% growth from acquisitions) and a decrease in dental equipment sales and service revenues of 39.3%, all of which is attributable to the decrease in internally generated revenue. The COVID-19 pandemic began to adversely impact our worldwide revenue beginning in mid-March as many dental offices progressively closed or began seeing a limited number of patients. However, in the second half of the quarter ended June 27, 2020 our dental sales began to improve as dental practices began to resume activities and patient traffic increased. In addition, global dental sales in the second quarter benefited from sales of personal protection equipment (PPE), which increased over 30% compared to the prior year.

The 11.4% decrease in medical net sales for the three months ended June 27, 2020 includes a decrease of 11.4% local currency revenue all of which is attributable to a decrease in internally generated revenue. The COVID-19 pandemic began to adversely impact our medical revenue beginning in mid-March and continuing into the first half of the second quarter, as many medical offices progressively closed or began seeing a limited number of patients. Economic conditions relating to the COVID-19 pandemic have had less of an impact on the performance of our medical group versus dental, in part due to continued strong sales of PPE, such as masks, gowns and face shields. In addition, global medical sales in the second quarter benefited from sales of personal protection equipment (PPE), which increased nearly 140% compared to the prior year.

The 15.9% decrease in technology and value-added services net sales for the three months ended June 27, 2020 includes a decrease of 15.4% local currency revenue (17.0% decrease in internally generated revenue, partially offset by 1.6% growth from acquisitions) and a decrease of 0.5% related to foreign currency exchange. During the

quarter, in line with the resumption of dental practice operations, the trend for transactional software revenues improved as more patients visited dental practices worldwide.

Although dental and medical practices began to re-open globally in the latter half of the second quarter, patient volumes are below pre-COVID-19 levels and a number of regions in the U.S and certain international geographies are experiencing an uptick in COVID-19 cases. As such, there is an ongoing risk that the COVID-19 pandemic may continue to have a material adverse effect on our net sales in future periods.

### Gross Profit

Gross profit and gross margin percentages by segment and in total for the three months ended June 27, 2020 and June 29, 2019 were as follows (in thousands):

|  | June 27,   | Gross    | June 29,   | Gross    | Decrease     |         |
|--|------------|----------|------------|----------|--------------|---------|
|  | 2020       | Margin % | 2019       | Margin % | \$           | %       |
| Health care distribution               | \$ 381,070 | 24.4%    | \$ 676,304 | 29.4%    | \$ (295,234) | (43.7)% |
| Technology and value-added services    | 72,683     | 69.1     | 90,433     | 72.3     | (17,750)     | (19.6)  |
| Total excluding Corporate TSA revenues | 453,753    | 27.3     | 766,737    | 31.6     | (312,984)    | (40.8)  |
| Corporate TSA revenues                 | 541        | 2.7      | 694        | 2.9      | (153)        | (22.0)  |
| Total                                  | \$ 454,294 | 27.0     | \$ 767,431 | 31.4     | \$ (313,137) | (40.8)  |

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 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.

In connection with the completion of the Animal Health Spin-off (see Note 2 for additional details), we entered into a transition services agreement with Covetrus, pursuant to which Covetrus purchases certain products from us. The agreement provides that these products will be sold to Covetrus at a mark-up that ranges from 3% to 6% of our product cost to cover handling costs. We expect these sales to continue through October 2020.

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. 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 decreased \$295.2 million, or 43.7%, for the three months ended June 27, 2020 compared to the prior year period, due primarily to the COVID-19 pandemic. Health care distribution gross profit margin decreased to 24.4% for the three months ended June 27, 2020 from 29.4% for the comparable prior year period. The overall decrease in our health care distribution gross profit is attributable to a decrease of \$236.1 million in internally generated revenue, a \$58.4 million decline in gross profit due to the decrease in the gross margin rates and \$0.7 million reduction in gross profit from acquisitions. Gross profit margin was negatively affected by lower gross profit on sales of PPE products as well as significant charges recorded for PPE inventory due to volatility of pricing for PPE, which may recur in future periods; a greater mix of sales outside of North America where margins are typically lower, and by fixed costs included in cost of goods sold that adversely affect gross margin rates when sales are lower. During the quarter, we continued to earn lower vendor rebates, due to lower purchase volumes, during the year in our health care distribution segment, which also contributes to the lower gross profit margin.



Technology and value-added services gross profit decreased \$17.8 million, or 19.6%, for the three months ended June 27, 2020 compared to the prior year period. The overall decrease in our Technology and value-added services gross profit is attributable to a \$15.7 million decrease in internally generated revenue, primarily due to the COVID-19 pandemic and a decrease of \$3.7 million from gross margin rates, partially offset by \$1.6 million additional gross profit from acquisitions. Technology and value-added services gross profit margin decreased to 69.1% for the three months ended June 27, 2020 from 72.3% for the comparable prior year period primarily due to a decrease in the volume of our transactional revenue from eClaims and credit card processing.

### ***Selling, General and Administrative***

Selling, general and administrative expenses by segment and in total for the three months ended June 27, 2020 and June 29, 2019 were as follows (in thousands):

|                                     | June 27,<br>2020  | % of<br>Respective<br>Net Sales | June 29,<br>2019  | % of<br>Respective<br>Net Sales | Decrease            |               |
|-------------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|---------------------|---------------|
|                                     |                   |                                 |                   |                                 | \$                  | %             |
| Health care distribution            | \$ 406,958        | 26.1%                           | \$ 542,082        | 23.6%                           | \$ (135,124)        | (24.9)%       |
| Technology and value-added services | 54,769            | 52.0                            | 63,061            | 50.4                            | (8,292)             | (13.1)        |
| <b>Total</b>                        | <b>\$ 461,727</b> | <b>27.4</b>                     | <b>\$ 605,143</b> | <b>24.7</b>                     | <b>\$ (143,416)</b> | <b>(23.7)</b> |

Selling, general and administrative expenses (including restructuring costs in the three months ended June 27, 2020 and June 27, 2020) decreased \$143.4 million, or 23.7%, for the three months ended June 27, 2020 from the comparable prior year period. The \$135.1 million decrease in selling, general and administrative expenses within our health care distribution segment for the three months ended June 27, 2020 as compared to the prior year period was attributable to a reduction of \$141.1 million of operating costs, primarily as a result of cost-saving measures taken in response to the COVID-19 pandemic, partially offset by increases of \$2.0 million of additional costs from acquired companies and an increase of \$4.0 million in restructuring costs. The \$8.3 million decrease in selling, general and administrative expenses within our technology and value-added services segment for the three months ended June 27, 2020 as compared to the prior year period was attributable to a reduction of \$9.9 million of operating costs, primarily as a result of cost-saving measures taken in response to the COVID-19 pandemic, partially offset by an increase of \$1.6 million of additional costs from acquired companies. As a percentage of net sales, selling, general and administrative expenses increased to 27.4% from 24.7% for the comparable prior year period, primarily due to a decreased sales base.

As a component of total selling, general and administrative expenses, selling expenses decreased \$112.4 million, or 30.7% to \$253.6 million, for the three months ended June 27, 2020 from the comparable prior year period, primarily due to a decrease in sales as a result of the COVID-19 pandemic. As a percentage of net sales, selling expenses increased to 15.1% from 15.0% for the comparable prior year period.

As a component of total selling, general and administrative expenses, general and administrative expenses decreased \$31.0 million, or 13.0% to \$208.1 million, for the three months ended June 27, 2020 from the comparable prior year period, primarily due to cost-saving measures taken in response to the COVID-19 pandemic. As a percentage of net sales, general and administrative expenses increased to 12.4% from 9.8% for the comparable prior year period.

**Other Expense, Net**

Other expense, net, for the three months ended June 27, 2020 and June 29, 2019 was as follows (in thousands):

|                    | June 27, |          | June 29, |          | Variance |         |         |
|--------------------|----------|----------|----------|----------|----------|---------|---------|
|                    | 2020     |          | 2019     |          | \$       | %       |         |
| Interest income    | \$       | 1,997    | \$       | 3,654    | \$       | (1,657) | (45.3)% |
| Interest expense   |          | (10,486) |          | (12,785) |          | 2,299   | 18.0    |
| Other, net         |          | (291)    |          | (1,416)  |          | 1,125   | 79.4    |
| Other expense, net | \$       | (8,780)  | \$       | (10,547) | \$       | 1,767   | 16.8    |

Interest income decreased \$1.7 million primarily due to lower interest rates and reduced late fee income. Interest expense decreased \$2.3 million primarily due to reduced interest expense resulting from decreased borrowings under our U.S trade accounts receivable securitization and lower interest rates, partially offset by increased borrowings under our bank credit lines.

**Income Taxes**

For the three months ended June 27, 2020, our effective tax rate was 5.9% compared to 23.7% for the prior year period. The difference between our effective tax rate and the federal statutory tax rate for the three months ended June 27, 2020, primarily relates to state and foreign income taxes and a valuation allowance recognized on a portion of a deferred tax asset. The difference between our effective tax rate and the federal statutory tax rate for the three months ended June 29, 2019, primarily relates to state and foreign income taxes and interest expense. Further, our effective tax rate was distorted due to our low pretax loss during the second quarter ended June 27, 2020.

## Six Months Ended June 27, 2020 Compared to Six Months Ended June 29, 2019

### Net Sales

Net sales for the six months ended June 27, 2020 and June 29, 2019 were as follows (in thousands):

|  | June 27,<br>2020    | % of<br>Total | June 29,<br>2019    | % of<br>Total | Increase/(Decrease) |               |
|--|---------------------|---------------|---------------------|---------------|---------------------|---------------|
|  |                     |               |                     |               | \$                  | %             |
| Health care distribution <sup>(1)</sup>            |                     |               |                     |               |                     |               |
| Dental   | \$ 2,416,368        | 58.7%         | \$ 3,147,730        | 65.5%         | \$ (731,362)        | (23.2)%       |
| Medical  | 1,418,498           | 34.5          | 1,381,218           | 28.7          | 37,280              | 2.7           |
| Total health care distribution                     | 3,834,866           | 93.2          | 4,528,948           | 94.2          | (694,082)           | (15.3)        |
| Technology and value-added services <sup>(2)</sup> | 237,192             | 5.8           | 240,649             | 5.0           | (3,457)             | (1.4)         |
| Total excluding Corporate TSA revenue              | 4,072,058           | 99.0          | 4,769,597           | 99.2          | (697,539)           | (14.6)        |
| Corporate TSA revenue <sup>(3)</sup>               | 41,212              | 1.0           | 38,498              | 0.8           | 2,714               | 7.0           |
| Total  | <u>\$ 4,113,270</u> | <u>100.0%</u> | <u>\$ 4,808,095</u> | <u>100.0%</u> | <u>\$ (694,825)</u> | <u>(14.5)</u> |

(1) Consists of consumable products, small equipment, laboratory products, large equipment, equipment repair services, branded and generic pharmaceuticals, vaccines, surgical products, diagnostic tests, infection-control products and vitamins.

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

(3) Corporate TSA revenues represents sales of certain products to Covetrus under the transition services agreement entered into in connection with the Animal Health Spin-off, which we expect to continue through October 2020.

The 14.5% decrease in net sales for the six months ended June 27, 2020 includes a decrease of 13.5% in local currency revenue (14.5% decrease in internally generated revenue, partially offset by 1.0% growth from acquisitions) and a decrease of 1.0% related to foreign currency exchange. Excluding sales of products under the transition services agreement with Covetrus, our net sales decreased 14.6%, including a decrease in local currency revenue of 13.6% (14.7% decrease in internally generated revenue, partially offset by 1.1% growth from acquisitions) and a decrease of 1.0% related to foreign currency exchange.

The 23.2% decrease in dental net sales for the six months ended June 27, 2020 includes a decrease of 21.8% local currency revenue (22.2% decrease in internally generated revenue, partially offset by 0.4% growth from acquisitions) and a decrease of 1.4% related to foreign currency exchange. The 21.8% decrease in local currency sales was attributable to a decrease in dental consumable merchandise revenue of 21.8% (22.3% decrease in internally generated revenue, partially offset by 0.5% growth from acquisitions), and a decrease in dental equipment sales and service revenues of 22.0%, all of which is attributable to a decrease in internally generated revenue. The COVID-19 pandemic began to adversely impact our worldwide dental revenue beginning in mid-March as many dental offices progressively closed or began seeing a limited number of patients. However, in the second half of the quarter ended and in the year-to-date ended June 27, 2020 our dental sales began to improve as dental practices began to resume activities and patient traffic increased.

The 2.7% increase in medical net sales for the six months ended June 27, 2020 includes an increase of 2.8% local currency growth (0.9% increase in internally generated revenue and 1.9% growth from acquisitions) partially offset by a decrease of 0.1% related to foreign currency exchange. The COVID-19 pandemic began to adversely impact our medical revenue beginning in mid-March and continuing into the first half of the second quarter, as many medical offices progressively closed or began seeing a limited number of patients. Economic conditions relating to the COVID-19 pandemic have had less of an impact on the performance of our medical group versus dental, in part due to continued strong sales of PPE, such as masks, gowns and face shields.

The 1.4% decrease in technology and value-added services net sales for the six months ended June 27, 2020 includes a decrease of 1.0% in local currency revenue (5.8% decrease in internally generated revenue, partially offset 4.8% growth from acquisitions) and a decrease of 0.4% related to foreign currency exchange. During the second quarter, in line with the resumption of dental practice operations, the trend for transactional software revenues improved as more patients visited dental practices worldwide.

Although dental and medical practices began to re-open globally in the latter half of the second quarter, patient volumes are below pre-COVID-19 levels and a number of regions in the U.S and certain international geographies are experiencing an uptick in COVID-19 cases. As such, there is an ongoing risk that the COVID-19 pandemic continue to have a material adverse effect on our net sales in future periods.

### Gross Profit

Gross profit and gross margin percentages by segment and in total for the six months ended June 27, 2020 and June 29, 2019 were as follows (in thousands):

|  | June 27,     | Gross    | June 29,     | Gross    | Increase/(Decrease) |         |
|--|--------------|----------|--------------|----------|---------------------|---------|
|  | 2020         | Margin % | 2019         | Margin % | \$                  | %       |
| Health care distribution               | \$ 1,034,411 | 27.0%    | \$ 1,344,171 | 29.7%    | \$ (309,760)        | (23.0)% |
| Technology and value-added services    | 164,768      | 69.5     | 173,801      | 72.2     | (9,033)             | (5.2)   |
| Total excluding Corporate TSA revenues | 1,199,179    | 29.4     | 1,517,972    | 31.8     | (318,793)           | (21.0)  |
| Corporate TSA revenues                 | 1,154        | 2.8      | 1,149        | 3.0      | 5                   | 0.4     |
| Total                                  | \$ 1,200,333 | 29.2     | \$ 1,519,121 | 31.6     | \$ (318,788)        | (21.0)  |

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.

In connection with the completion of the Animal Health Spin-off (see Note 2 for additional details), we entered into a transition services agreement with Covetrus, pursuant to which Covetrus purchases certain products from us. The agreement provides that these products will be sold to Covetrus at a mark-up that ranges from 3% to 6% of our product cost to cover handling costs. We expect these sales to continue through October 2020.

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. 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 decreased \$309.8 million, or 23.0%, for the six months ended June 27, 2020 compared to the prior year period, due primarily to the COVID-19 pandemic. Health care distribution gross profit margin decreased to 27.0% for the six months ended June 27, 2020 from 29.7% for the comparable prior year period. The overall decrease in our health care distribution gross profit is attributable to a \$247.7 decrease in internally generated revenue and a \$73.4 million decline in gross profit due to the decrease in the gross margin rates, partially offset by \$11.3 million additional gross profit from acquisitions. Gross profit margin was negatively affected by lower gross profit on sales of PPE products as well as significant charges recorded for PPE inventory due to volatility of pricing for PPE, which may recur in future periods; a greater mix of sales outside of North America where margins are typically lower, and by fixed costs included in cost of goods sold that adversely affect gross margin rates when sales are lower. During the year, we continued to earn lower vendor rebates, due to lower purchase volumes, in our health care distribution segment, which also contributes to the lower gross profit margin.

Technology and value-added services gross profit decreased \$9.0 million, or 5.2%, for the six months ended June 27, 2020 compared to the prior year period. The overall decrease in our Technology and value-added services gross profit is attributable to a decrease of \$10.7 in internally generated revenue, primarily due to the COVID-19 pandemic and a \$7.8 million decline in gross profit due to the decrease in the gross margin rates, partially offset by \$9.4 million additional gross profit from acquisitions. Technology and value-added services gross profit margin decreased to 69.5% for the six months ended June 27, 2020 from 72.2% for the comparable prior year period primarily due to a decrease in the volume of our transactional revenue from eClaims and credit card processing.

**Selling, General and Administrative**

Selling, general and administrative expenses by segment and in total for the six months ended June 27, 2020 and June 29, 2019 were as follows (in thousands):

|                                     | June 27,<br>2020 | % of<br>Respective<br>Net Sales | June 29,<br>2019 | % of<br>Respective<br>Net Sales | Increase / (Decrease) |         |
|-------------------------------------|------------------|---------------------------------|------------------|---------------------------------|-----------------------|---------|
|                                     |                  |                                 |                  |                                 | \$                    | %       |
| Health care distribution            | \$ 912,745       | 23.8%                           | \$ 1,065,880     | 23.5%                           | \$ (153,135)          | (14.4)% |
| Technology and value-added services | 121,156          | 51.1                            | 118,512          | 49.2                            | 2,644                 | 2.2     |
| Total                               | \$ 1,033,901     | 25.1                            | \$ 1,184,392     | 24.6                            | \$ (150,491)          | (12.7)  |

Selling, general and administrative expenses (including restructuring costs in the six months ended June 27, 2020 and June 27, 2020) decreased \$150.5 million, or 12.7%, for the six months ended June 27, 2020 from the comparable prior year period. The \$153.1 million decrease in selling, general and administrative expenses within our health care distribution segment for the six months ended June 27, 2020 as compared to the prior year period was attributable to a reduction of \$171.2 million of operating costs, primarily as a result of cost-saving measures taken in response to the COVID-19 pandemic, partially offset by increases of \$14.0 million of additional costs from acquired companies and an increase of \$4.1 million in restructuring costs. The \$2.6 million increase in selling, general and administrative expenses within our technology and value-added services segment for the six months ended June 27, 2020 as compared to the prior year period was attributable to an increase of \$7.7 million of additional costs from acquired companies, partially offset by a reduction of \$5.1 million of operating costs. As a percentage of net sales, selling, general and administrative expenses increased to 25.1% from 24.6% for the comparable prior year period.

As a component of total selling, general and administrative expenses, selling expenses decreased \$91.5 million, or 12.6% to \$ 635.2 million, for the six months ended June 27, 2020 from the comparable prior year period, primarily as a result of cost-saving measures taken in response to the COVID-19 pandemic. As a percentage of net sales, selling expenses increased to 15.4% from 15.1% for the comparable prior year period.

As a component of total selling, general and administrative expenses, general and administrative expenses decreased \$59.0 million, or 12.9% to \$ 398.7 million, for the six months ended June 27, 2020 from the comparable prior year period, primarily as a result of cost-saving measures taken in response to the COVID-19 pandemic. As a percentage of net sales, general and administrative expenses decreased to 9.7% from 9.5% for the comparable prior year period.

Our selling, general and administrative expenses for the six months ended June 27, 2020 continued to be affected by certain estimates we made due to the adverse business environment brought on by the COVID-19 pandemic. For example, in the quarter ended March 28, 2020 we recorded incremental bad debt reserves of approximately \$10 million for our global dental business. As of June 27, 2020, we have retained the \$10 million incremental bad debt reserves due to the ongoing uncertainties in the markets we serve.

In the quarter ended March 28, 2020, we also recognized a net credit of approximately \$17.5 million in stock-based compensation expense during the quarter due to our previous estimate that no performance shares granted in 2018, 2019 or 2020 will ultimately vest. Our assumptions regarding vesting of performance shares under our 2018, 2019 and 2020 LTIP remain largely unchanged from those as of March 28, 2020. Accordingly, we did not recognize any significant stock compensation expense related to performance shares during the six months ended June 27, 2020.

During the quarter ended March 28, 2020, we recorded total impairment charges of approximately \$6.1 million during the quarter related to prepaid royalty expenses and a customer relationship intangible asset.

**Other Expense, Net**

Other expense, net, for the six months ended June 27, 2020 and June 29, 2019 was as follows (in thousands):

|                    | June 27, |          | June 29, |          | Variance |         |         |
|--------------------|----------|----------|----------|----------|----------|---------|---------|
|                    | 2020     |          | 2019     |          | \$       | %       |         |
| Interest income    | \$       | 5,187    | \$       | 8,425    | \$       | (3,238) | (38.4)% |
| Interest expense   |          | (18,298) |          | (29,086) |          | 10,788  | 37.1    |
| Other, net         |          | (511)    |          | (1,835)  |          | 1,324   | 72.2    |
| Other expense, net | \$       | (13,622) | \$       | (22,496) | \$       | 8,874   | 39.4    |

Interest income decreased \$3.2 million primarily due to lower interest rates and reduced late fee income. Interest expense decreased \$10.8 million primarily due to decreased borrowings under our U.S trade accounts receivable securitization and lower interest rates, partially offset by increased borrowings under our bank credit lines.

**Income Taxes**

For the six months ended June 27, 2020, our effective tax rate was 24.2% compared to 24.1% for the prior year period. The difference between our effective tax rates and the federal statutory tax rate for the six months ended June 27, 2020, primarily relates to state and foreign income taxes and interest expense, tax charges and credits associated with legal entity reorganizations outside the U.S and a valuation allowance recognized on a portion of a deferred tax asset. The difference between our effective tax rate and the federal statutory tax rate for the six months ended June 29, 2019, primarily relates to state and foreign income taxes and interest expense.

## Liquidity and Capital Resources

Our principal capital requirements have included funding of acquisitions (which have largely been temporarily suspended), 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 have been temporarily suspended). 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 third and fourth quarters 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.

The pandemic and the governmental responses to it have had a material adverse effect on our cash flows. Although dental and medical practices began to re-open globally in the latter half of the second quarter, patient volumes are below pre-COVID-19 levels and a number of regions in the U.S and certain international geographies are experiencing an uptick in COVID-19 cases. As such, there is an ongoing risk that the COVID-19 pandemic may continue to have a material adverse effect on our cash flows in future periods. However, the extent of the potential impact cannot be reasonably estimated at this time.

As part of a broad-based effort to support plans for the long-term health of Henry Schein's business and to strengthen the Company's financial flexibility, Henry Schein has implemented cost reduction measures that include certain reductions in payroll, substantially decreasing capital expenditures, reducing planned corporate spending and eliminating certain non-strategic targeted expenditures. Recently, certain customer-facing employees have begun to return from furloughs and reduced hours as certain markets have begun to recover. As the COVID-19 pandemic continues to unfold, the Company will continue to evaluate appropriate actions for its business.

We finance our business primarily through cash generated from our operations, revolving credit facilities and debt placements. 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. We have no off-balance sheet arrangements.

On February 7, 2019, we completed the Animal Health Spin-off. On the Distribution Date we received a tax free distribution of \$1,120 million from Covetrus, which has been used to pay down our debt, thereby generating additional debt capacity that can be used for general corporate purposes, including share repurchases and mergers and acquisitions.

Net cash from continuing operations used by operating activities was \$0.8 million for the six months ended June 27, 2020, compared to net cash from continuing operations provided by operating activities of \$298.8 million for the comparable prior year period. The net change of \$299.6 million was primarily attributable to lower net income, lower distributions from equity affiliates, and increased working capital requirements, specifically a lower decrease in inventories and an increase in prepaid inventories, partially offset by lower accounts receivable due to lower sales volume. The decrease in distributions from equity affiliates is the result of having sold our equity investment in Hu-Friedy Mfg. Co., LLC in the fourth quarter of 2019. The increase in other current assets is related to payments, for prepaid inventories, made during the second quarter of 2020 to secure adequate levels of PPE inventory.

Net cash from continuing operations used in investing activities was \$81.6 million for the six months ended June 27, 2020, compared to \$635.5 million for the comparable prior year period. The net change of \$553.9 million was primarily attributable to decreased activity and payments for equity investments and business acquisitions.

Net cash from continuing operations provided by financing activities was \$262.1 million for the six months ended June 27, 2020, compared to net cash provided by financing activities of \$360.3 million for the comparable prior year period. The net change of \$98.2 million was primarily due to proceeds received during the prior year related to the Animal Health Spin-off and a reduction in proceeds from noncontrolling subsidiaries, partially offset by increased bank borrowings and proceeds from issuance of long-term debt, reduced payments to the Henry Schein Animal Health Business and decreased repurchases of our common stock.

The following table summarizes selected measures of liquidity and capital resources (in thousands):

|   | June 27,<br>2020    | December 28,<br>2019 |
|---|---------------------|----------------------|
| Cash and cash equivalents               | \$ 296,110          | \$ 106,097           |
| Working capital <sup>(1)</sup>          | 1,101,965           | 1,188,133            |
| Debt:                                   |                     |                      |
| Bank credit lines                       | \$ 503,178          | \$ 23,975            |
| Current maturities of long-term debt    | 109,587             | 109,849              |
| Long-term debt                          | 515,802             | 622,908              |
| Total debt                              | <u>\$ 1,128,567</u> | <u>\$ 756,732</u>    |
| Leases:                                 |                     |                      |
| Current operating lease liabilities     | \$ 61,710           | \$ 65,349            |
| Non-current operating lease liabilities | 163,342             | 176,267              |

(1) Includes \$0 million and \$127 million of accounts receivable which serve as security for U.S. trade accounts receivable securitization at June 27, 2020 and December 28, 2019 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 increased to 52.4 days as of June 27, 2020 from 45.1 days as of June 29, 2019. During the six months ended June 27, 2020, we wrote off approximately \$3.9 million of fully reserved accounts receivable against our trade receivable reserve. Our inventory turns from operations decreased to 4.2 as of June 27, 2020 from 4.8 as of June 29, 2019. Our working capital accounts may be impacted by current and future economic conditions.

#### *Bank Credit Lines*

Bank credit lines consisted of the following:

|                                    | June 27,<br>2020  | December 28,<br>2019 |
|------------------------------------|-------------------|----------------------|
| Revolving credit agreement         | \$ -              | \$ -                 |
| 364-day credit agreement           | 500,000           | -                    |
| Other short-term bank credit lines | 3,178             | 23,975               |
| Total                              | <u>\$ 503,178</u> | <u>\$ 23,975</u>     |

The increase in the level of borrowings under our bank credit lines as of June 27, 2020 was attributable to potential cash requirements due to the impact of the COVID-19 pandemic.



### *Revolving Credit Agreement*

On April 18, 2017, we entered into a \$750 million revolving credit agreement (the “Credit Agreement”), which matures 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. We expect the LIBOR rate to be discontinued at some point during 2021, which will require an amendment to our debt agreements to reflect a new reference rate. 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 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 27, 2020 and December 28, 2019, the borrowings on this revolving credit facility were \$0.0 million and \$0.0 million, respectively. As of June 27, 2020 and December 28, 2019, there were \$9.4 million and \$9.6 million of letters of credit, respectively, provided to third parties under the credit facility.

On April 17, 2020, we amended the Credit Agreement to, among other things, (i) modify the financial covenant from being based on total leverage ratio to net leverage ratio, (ii) adjust the pricing grid to reflect the net leverage ratio calculation, and (iii) increase the maximum maintenance leverage ratio through March 31, 2021.

### *364-Day Credit Agreement*

On April 17, 2020, we entered into a new \$700 million 364-day credit agreement, with JPMorgan Chase Bank, N.A. and U.S. Bank National Association as joint lead arrangers and joint bookrunners. This facility matures on April 16, 2021. As of June 27, 2020, the borrowings on this credit facility were \$500 million. We have the ability to borrow the remaining \$200 million on a revolving basis as needed, subject to the terms and conditions of the credit agreement. The interest rate for borrowings under this facility will fluctuate based on our net leverage ratio. At June 27, 2020, the interest rate on this facility was 2.81%. The proceeds from this facility can be used for working capital requirements and general corporate purposes, including, but not limited to, permitted refinancing of existing indebtedness.

### *Other Short-Term Credit Lines*

As of June 27, 2020 and December 28, 2019, we had various other short-term bank credit lines available, of which \$3.2 million and \$24 million, respectively, were outstanding. At June 27, 2020 and December 28, 2019, borrowings under all of these credit lines had a weighted average interest rate of 2.86% and 3.45%, respectively.

The decrease during the quarter ended June 27, 2020 in the weighted average interest rate under all of our credit lines was attributable to the Federal Reserve lowering borrowing rates during March 2020 in response to the COVID-19 pandemic.

## Long-term debt

Long-term debt consisted of the following:

|  | June 27,<br>2020 | December 28,<br>2019 |
|--|------------------|----------------------|
| Private placement facilities   | \$ 613,469       | \$ 621,274           |
| U.S. trade accounts receivable securitization  | -                | 100,000              |
| Note payable due in 2025 with an interest rate of 3.1%<br>at June 27, 2020   | 1,454            | -                    |
| Various collateralized and uncollateralized loans payable with interest,<br>in varying installments through 2023 at interest rates<br>ranging from 2.62% to 4.22% at June 27, 2020 and<br>ranging from 2.56% to 10.5% at December 28, 2019 | 4,548            | 6,089                |
| Finance lease obligations (see Note 7)   | 5,918            | 5,394                |
| Total  | 625,389          | 732,757              |
| Less current maturities  | (109,587)        | (109,849)            |
| Total long-term debt   | \$ 515,802       | \$ 622,908           |

### Private Placement Facilities

On September 15, 2017, we increased our available private placement facilities with three insurance companies to a total facility amount of \$1 billion, and extended the expiration date to September 15, 2020. On June 23, 2020, the expiration date for our private placement facilities was extended through June 23, 2023. These facilities 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 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. On June 29, 2018, we amended and restated the above private placement facilities to, among other things, (i) permit the consummation of the Animal Health Spin-off and (ii) provide for the issuance of notes in Euros, British Pounds and Australian Dollars, in addition to U.S. Dollars. 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 27, 2020 are presented in the following table (in thousands):

| Date of Borrowing                  | Amount of<br>Borrowing<br>Outstanding | Borrowing<br>Rate | Due Date           |
|------------------------------------|---------------------------------------|-------------------|--------------------|
| September 2, 2010 <sup>(1)</sup>   | \$ 100,000                            | 3.79%             | September 2, 2020  |
| January 20, 2012 <sup>(2)</sup>    | 14,286                                | 3.09              | January 20, 2022   |
| January 20, 2012                   | 50,000                                | 3.45              | January 20, 2024   |
| December 24, 2012                  | 50,000                                | 3.00              | December 24, 2024  |
| June 2, 2014                       | 100,000                               | 3.19              | June 2, 2021       |
| June 16, 2017                      | 100,000                               | 3.42              | June 16, 2027      |
| September 15, 2017                 | 100,000                               | 3.52              | September 15, 2029 |
| January 2, 2018                    | 100,000                               | 3.32              | January 2, 2028    |
| Less: Deferred debt issuance costs | (817)                                 |                   |                    |
|                                    | \$ 613,469                            |                   |                    |

(1) During April 2020, we took certain steps to lock-in a lower interest rate to refinance our \$100 million private placement borrowing at 3.79%, coming due on September 2, 2020 with a similar 10 year borrowing at 2.35% maturing on September 2, 2030.

(2) Annual repayments of approximately \$7.1 million for this borrowing commenced on January 20, 2016.

### *U.S. Trade Accounts Receivable Securitization*

We have a facility agreement with a bank, as agent, 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 has a purchase limit of \$350 million, was scheduled to expire on April 29, 2022. On June 22, 2020, the expiration date for this facility was extended to June 12, 2023. As of June 27, 2020 and December 28, 2019, the borrowings outstanding under this securitization facility were \$0 million and \$100 million, respectively. At June 27, 2020, the interest rate on borrowings under this facility was based on the asset-backed commercial paper rate of 0.57% plus 0.95%, for a combined rate of 1.52%. At December 28, 2019, the interest rate on borrowings under this facility was based on the asset-backed commercial paper rate of 1.90% plus 0.75%, for a combined rate of 2.65%.

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 25 to 45 basis points depending upon program utilization.

Borrowings under this facility are presented as a component of Long-term debt within our consolidated balance sheets.

### *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 15 years, some of which may include options to extend the leases for up to 10 years. As of June 27, 2020, our right-of-use assets related to operating leases were \$211.5 million and our current and non-current operating lease liabilities were \$61.7 million and \$163.3 million, respectively.

### *Stock Repurchases*

From March 3, 2003 through June 27, 2020, we repurchased \$3.6 billion, or 75,563,289 shares, under our common stock repurchase programs, with \$201.2 million available as of June 27, 2020 for future common stock share repurchases.

As a result of the COVID-19 pandemic, on April 6, 2020, we announced a temporary suspension of our share repurchase program in an effort to preserve cash and exercise caution during this uncertain period.

*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 27, 2020 and the year ended December 28, 2019 are presented in the following table:

|   | <b>June 27,<br/>2020</b> | <b>December 28,<br/>2019</b> |
|---|--------------------------|------------------------------|
| Balance, beginning of period  | \$ 287,258               | \$ 219,724                   |
| Decrease in redeemable noncontrolling interests due to redemptions                              | (12,636)                 | (2,270)                      |
| Increase in redeemable noncontrolling interests due to business acquisitions                    | 25,369                   | 74,865                       |
| Net income attributable to redeemable noncontrolling interests                                  | 1,161                    | 14,838                       |
| Dividends declared  | (4,068)                  | (10,264)                     |
| Effect of foreign currency translation loss attributable to redeemable noncontrolling interests | (12,276)                 | (2,335)                      |
| Change in fair value of redeemable securities   | (5,583)                  | (7,300)                      |
| Balance, end of period  | <u>\$ 279,225</u>        | <u>\$ 287,258</u>            |

Changes in the estimated redemption amounts of the noncontrolling interests subject to put options are adjusted at each reporting period with a corresponding adjustment to Additional paid-in capital. Future reductions in the carrying amounts are subject to a floor amount that is equal to the fair value of the redeemable noncontrolling interests at the time they were originally recorded. The recorded value of the redeemable noncontrolling interests cannot go below the floor level. These adjustments do not impact the calculation of earnings per share.

Additionally, some prior owners of such acquired subsidiaries are eligible to receive additional purchase price cash consideration if certain financial targets are met. Any adjustments to these accrual amounts are recorded in our consolidated statements of income. For the six months ended June 27, 2020 and June 29, 2019, there were no material adjustments recorded in our consolidated statements of income relating to changes in estimated contingent purchase price liabilities.

*Noncontrolling Interests*

Noncontrolling interests represent our less than 50% ownership interest in an acquired subsidiary. Our net income is reduced by the portion of the subsidiaries net income that is attributable to noncontrolling interests.

## **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 28, 2019, except accounting policies adopted as of December 29, 2019, which are discussed in Note 3 of the Notes to Consolidated Financial Statements included in Item 1.

Our financial results for the six months ended June 27, 2020 were affected by certain estimates we made due to the adverse business environment brought on by the COVID-19 pandemic. For example, in the quarter ended March 28, 2020 we recorded incremental bad debt reserves of approximately \$10.0 million for our global dental business and continued to retain those incremental reserves through the quarter ended June 27, 2020. During the quarter ended March 28, 2020, we also recognized a net credit of approximately \$17.5 million in stock-based compensation expense due to our estimate that no performance shares granted in 2018, 2019 or 2020 will ultimately vest. For the quarter ended June 27, 2020, we continued to estimate that no such performance-based shares will ultimately vest. Additionally in the quarter ended March 28, 2020, we recorded total impairment charges of approximately \$6.1 million related to prepaid royalty expenses and a customer relationship intangible asset. We had no material impairment charges in the quarter ended June 27, 2020. Although our selling, general and administrative expenses for the six months ended June 27, 2020 represent management's best estimates and assumptions that affect the reported amounts, our judgment could change in the future due to the significant uncertainty surrounding the macroeconomic effect of the COVID-19 pandemic.

## **Accounting Standards Update**

For a discussion of accounting standards updates that have been adopted or will be adopted in the future, please refer to Note 3 of the Notes to 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 28, 2019.

## 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 27, 2020 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 combination of continued acquisition integrations and systems implementations undertaken during the quarter and carried over from prior quarters as well as changes to the operating methods of some of our internal controls over financial reporting due to the COVID-19 pandemic, when considered in the aggregate, represents a material change in our internal control over financial reporting.

During the quarter ended June 27, 2020, post-acquisition integration related activities continued for our global dental and North American medical businesses acquired during prior quarters, representing aggregate annual revenues of approximately \$370 million. These acquisitions, the majority of which utilize separate information and financial accounting systems, have been included in our consolidated financial statements since their respective dates of acquisition. Also, during the quarter ended June 27, 2020, we completed systems implementation activities for integrating one of our Brazil dental businesses onto an existing ERP system. This business represents approximate aggregate annual revenues of \$97 million. All continued acquisition integrations and systems implementations involved 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.

In addition, as a result of a combination of continued governmental imposed and Company directed closures of some of our facilities due to the COVID-19 pandemic, we have had to maintain a number of changes to the operating methods of some of our internal controls. For example, moving from manual sign-offs and in-person meetings to electronic sign-offs and electronic communications such as email and telephonic or video conference due to out-of-office working arrangements. However, the design of our internal control framework and objectives over financial reporting remains unchanged and the Company does not believe that these changes have materially affected, or are reasonably likely to materially affect, the effectiveness of the Company’s 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**

On August 31, 2012, Archer and White Sales, Inc. (“Archer”) filed a complaint against Henry Schein, Inc. as well as Danaher Corporation and its subsidiaries Instrumentarium Dental, Inc., Dental Equipment, LLC, Kavo Dental Technologies, LLC and Dental Imaging Technologies Corporation (collectively, the “Danaher Defendants”) in the U.S. District Court for the Eastern District of Texas, Civil Action No. 2:12-CV-00572-JRG, styled as an antitrust action under Section 1 of the Sherman Act, and the Texas Free Enterprise Antitrust Act. Archer alleges a conspiracy between Henry Schein, an unnamed company and the Danaher Defendants to terminate or limit Archer’s distribution rights. On August 1, 2017, Archer filed an amended complaint, adding Patterson Companies, Inc. (“Patterson”) and Benco Dental Supply Co. (“Benco”) as defendants, and alleging that Henry Schein, Patterson, Benco and Burkhart Dental Supply conspired to fix prices and refused to compete with each other for sales of dental equipment to dental professionals and agreed to enlist their common suppliers, the Danaher Defendants, to join a price-fixing conspiracy and boycott by reducing the distribution territory of, and eventually terminating, their price-cutting competing distributor Archer. Archer seeks damages in an amount to be proved at trial, to be trebled with interest and costs, including attorneys’ fees, jointly and severally, as well as injunctive relief. On October 30, 2017, Archer filed a second amended complaint, to add additional allegations that it believes support its claims. The named parties and causes of action are the same as the August 1, 2017 amended complaint.

On October 1, 2012, we filed a motion for an order: (i) compelling Archer to arbitrate its claims against us; (2) staying all proceedings pending arbitration; and (3) joining the Danaher Defendants’ motion to arbitrate and stay. On May 28, 2013, the Magistrate Judge granted the motions to arbitrate and stayed proceedings pending arbitration. On June 10, 2013, Archer moved for reconsideration before the District Court judge. On December 7, 2016, the District Court Judge granted Archer’s motion for reconsideration and lifted the stay. Defendants appealed the District Court’s order. On December 21, 2017, the U.S. Court of Appeals for the Fifth Circuit affirmed the District Court’s order denying the motions to compel arbitration. On June 25, 2018, the Supreme Court of the United States granted defendants’ petition for writ of certiorari. On October 29, 2018, the Supreme Court heard oral arguments. On January 8, 2019, the Supreme Court issued its published decision vacating the judgment of the Fifth Circuit and remanding the case to the Fifth Circuit for further proceedings consistent with the Supreme Court’s opinion. On April 2, 2019, the District Court stayed the proceeding in the trial court pending resolution by the Fifth Circuit. The Fifth Circuit heard oral argument on May 1, 2019 on whether the case should be arbitrated. The Fifth Circuit issued its opinion on August 14, 2019 affirming the District Court’s order denying defendants’ motions to compel arbitration. Defendants filed a petition for rehearing en banc before the Fifth Circuit. The Fifth Circuit denied that petition. On October 1, 2019, the District Court set the case for trial on February 3, 2020, which was subsequently moved to January 29, 2020. On January 24, 2020 the Supreme Court granted our motion to stay the District Court proceedings, pending the disposition of our petition for writ of certiorari, which was filed on January 31, 2020. Archer conditionally cross petitioned for certiorari on an arbitration issue on March 2, 2020. On June 15, 2020, the Supreme Court granted our petition for writ of certiorari, and denied Archer’s conditional petition for certiorari, and thus the District Court proceedings remain stayed. Patterson and the Danaher Defendants settled with Archer and they have been dismissed from the case with prejudice. Benco is still a defendant and filed a notice of joinder in Henry Schein’s motion to compel arbitration with the District Court. We intend to defend ourselves vigorously against this action.

On March 7, 2018, Joseph Salkowitz, individually and on behalf of all others similarly situated, filed a putative class action complaint for violation of the federal securities laws against Henry Schein, Inc., Stanley M. Bergman and Steven Paladino in the U.S. District Court for the Eastern District of New York, Case No. 1:18-cv-01428. The complaint sought to certify a class consisting of all persons and entities who, subject to certain exclusions, purchased Henry Schein securities from March 7, 2013 through February 12, 2018 (the “Class Period”). The complaint alleged, among other things, that the defendants had made materially false and misleading statements about Henry Schein’s business, operations and prospects during the Class Period, thereby causing the plaintiff and members of the purported class to pay artificially inflated prices for Henry Schein securities. Those alleged statements included matters relating to the issues in the *In re Dental Supplies Antitrust Litigation*, which Henry Schein settled and which the court dismissed in June 2019, and in the United States Federal Trade Commission (“FTC”) administrative proceeding, in which an administrative law judge ruled in Henry Schein’s favor in October

2019 after a trial, as described in our prior filings with the SEC. The complaint sought unspecified monetary damages and a jury trial. Pursuant to the provisions of the Private Securities Litigation Reform Act of 1995 (the “PSLRA”), the court appointed lead plaintiff and lead counsel on June 22, 2018 and recaptioned the putative class action as *In re Henry Schein, Inc. Securities Litigation*, under the same case number. Lead plaintiff filed a consolidated class action complaint on September 14, 2018. The consolidated class action complaint asserts similar claims against the same defendants (plus Timothy Sullivan) on behalf of the same putative class of purchasers during the Class Period. It alleges that Henry Schein’s stock price was inflated during that period because Henry Schein had misleadingly portrayed its dental-distribution business “as successfully producing excellent profits while operating in a highly competitive environment” even though, “in reality, [Henry Schein] had engaged for years in collusive and anticompetitive practices in order to maintain Schein’s margins, profits, and market share.” The complaint alleges that the stock price started to fall from August 8, 2017, when the company announced below-expected financial performance that allegedly “revealed that Schein’s poor results were a product of abandoning prior attempts to inflate sales volume and margins through anticompetitive collusion,” through February 13, 2018, after the FTC filed a complaint against Benco, Henry Schein and Patterson alleging that they violated U.S. antitrust laws. The complaint alleges violations of Section 10(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and Rule 10b-5 and Section 20(a) of the Exchange Act. On September 27, 2019, the court issued a decision partially granting and partially denying defendants’ motion to dismiss the securities action. The court dismissed all claims against Messrs. Bergman and Paladino as well as the Section 10(b) claim against Henry Schein to the extent that that claim relied on the Company’s financial results and margins to allege a material misstatement or omission. The court also dismissed the Section 10(b) claim against Henry Schein to the extent that it relied on the Company’s August 8, 2017 disclosure to allege loss causation. The court otherwise denied the motion as to Henry Schein and Mr. Sullivan. Henry Schein and Mr. Sullivan moved for partial reconsideration of the court’s decision. Pursuant to all parties’ request, the court temporarily took the motion off the calendar after it was fully briefed. The parties later agreed to resolve this matter in exchange for a cash payment of \$35 million, which will be covered by the Company’s insurance and will have no earnings impact to the Company. The proposed settlement is subject to various conditions, including court approval. The Court preliminarily approved the proposed settlement on May 5, 2020 and has scheduled a fairness hearing for September 16, 2020.

On May 3, 2018, a purported class action complaint, *Marion Diagnostic Center, LLC, et al. v. Becton, Dickinson, and Co., et al.*, Case No. 3:18-cv-010509, was filed in the U.S. District Court for the Southern District of Illinois against Becton, Dickinson, and Co. (“Becton”); Premier, Inc. (“Premier”), Vizient, Inc. (“Vizient”), Cardinal Health, Inc. (“Cardinal”), Owens & Minor Inc. (“O&M”), Henry Schein, Inc., and Unnamed Becton Distributor Co-Conspirators. The complaint alleges that the defendants entered into a vertical conspiracy to force health care providers into long-term exclusionary contracts that restrain trade in the nationwide markets for conventional and safety syringes and safety IV catheters and inflate the prices of certain Becton products to above-competitive levels. The named plaintiffs seek to represent three separate classes consisting of all health care providers that purchased (i) Becton’s conventional syringes, (ii) Becton’s safety syringes, or (iii) Becton’s safety catheters directly from Becton, Premier, Vizient, Cardinal, O&M or Henry Schein on or after May 3, 2014. The complaint asserts a single count under Section 1 of the Sherman Act, and seeks equitable relief, treble damages, reasonable attorneys’ fees and costs and expenses, and pre-judgment and post-judgment interest. On June 15, 2018, an amended complaint was filed asserting the same allegations against the same parties and adding McKesson Medical-Surgical, Inc. as a defendant. On November 30, 2018, the District Court granted defendants’ motion to dismiss and entered a final judgment, dismissing plaintiffs’ complaint with prejudice. On December 27, 2018, plaintiffs appealed the District Court’s decision to the Seventh Circuit Court of Appeals. The parties argued the appeal on September 27, 2019. On March 5, 2020, the Seventh Circuit Court of Appeals reversed the District Court’s decision. The Seventh Circuit held that plaintiffs failed to adequately allege the necessary conspiracy by the defendants, but should be provided an opportunity to amend their complaint. The Seventh Circuit vacated the District Court’s judgment, and remanded the case for further proceedings consistent with its opinion. Plaintiffs’ counsel have indicated that they intend to amend their complaint.

On May 29, 2018, an amended complaint was filed in the MultiDistrict Litigation (“MDL”) proceeding *In Re National Prescription Opiate Litigation* (MDL No. 2804; Case No. 17-md-2804) in an action entitled *The County of Summit, Ohio et al. v. Purdue Pharma, L.P., et al.*, Civil Action No. 1:18-op-45090-DAP (“County of Summit Action”), in the U.S. District Court for the Northern District of Ohio, adding Henry Schein, Inc., Henry Schein Medical Systems, Inc. and others as defendants. Summit County alleges that 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 Henry Schein Medical Systems, Inc.) reaped financial rewards by refusing or otherwise failing to monitor appropriately and restrict the improper distribution of those drugs. On October 29, 2019, the Company was dismissed with prejudice from this lawsuit. Henry Schein, working with Summit County, donated \$1 million to a foundation and paid \$250,000 of Summit County's expenses, as described in our prior filing with the SEC.

In addition to the County of Summit Action, Henry Schein and/or one or more of its affiliated companies have currently been named as a defendant in multiple lawsuits (currently less than one-hundred and fifty (150)), which allege claims similar to those alleged in the County of Summit Action. At this time, the only cases set for trial are the action filed by Tucson Medical Center et al., which is currently scheduled for a 30-day trial beginning on June 1, 2021, and the action filed by West Virginia University Hospitals, Inc. et al., which is currently scheduled for a non-jury liability trial on Plaintiffs' public nuisance claims on March 22, 2021. These actions consist of some that have been consolidated within the MDL and are currently abated for discovery purposes, and others which remain pending in state courts and are proceeding independently and outside of the MDL. Of Henry Schein's 2019 revenue of approximately \$10 billion from continuing operations, sales of opioids represented less than one-tenth of 1 percent. Opioids represent a negligible part of our business. We intend to defend ourselves vigorously against these actions.

On September 30, 2019, the City of Hollywood Police Officers Retirement System, individually and on behalf of all others similarly situated, filed a putative class action complaint for violation of the federal securities laws against Henry Schein, Inc., Covetrus, Inc., and Benjamin Shaw and Christine Komola (Covetrus's then Chief Executive Officer and Chief Financial Officer, respectively) in the U.S. District Court for the Eastern District of New York, Case No. 2:19-cv-05530-FB-RLM. The complaint seeks to certify a class consisting of all persons and entities who, subject to certain exclusions, purchased or otherwise acquired Covetrus common stock from February 8, 2019 through August 12, 2019. The case relates to the Animal Health Spin-off and Merger of the Henry Schein Animal Health Business with Vets First Choice in February 2019. The complaint alleges violations of Sections 10(b) and 20(a) of the Exchange Act and SEC Rule 10b-5 and asserts that defendants' statements in the offering documents and after the transaction were materially false and misleading because they purportedly overstated Covetrus's capabilities as to inventory management and supply-chain services, understated the costs of integrating the Henry Schein Animal Health Business and Vets First Choice, understated Covetrus's separation costs from Henry Schein, and understated the impact on earnings from online competition and alternative distribution channels and from the loss of an allegedly large customer in North America just before the Separation and Merger. The complaint seeks unspecified monetary damages and a jury trial. Pursuant to the provisions of the PSLRA, the court appointed lead plaintiff and lead counsel on December 23, 2019. Lead plaintiff filed a Consolidated Class Action Complaint on February 21, 2020. Lead plaintiff added Steve Paladino, our Chief Financial Officer, as a defendant in the action. Lead plaintiff filed an Amended Consolidated Class Action Complaint on May 21, 2020, in which it added a claim that Mr. Paladino is a "control person" of Covetrus. We intend to defend ourselves vigorously against this action.

On November 15, 2019, Frank Finazzo filed a putative shareholder derivative action on behalf of Henry Schein, Inc. against various present and former directors and officers of Henry Schein in the U.S. District Court for the Eastern District of New York, Case No. 1:19-cv-6485-LDH-JO. The named defendants in the action are Stanley M. Bergman, Steven Paladino, Timothy J. Sullivan, Barry J. Alperin, Lawrence S. Bacow, Gerald A. Benjamin, James P. Breslawski, Paul Brons, Shira Goodman, Joseph L. Herring, Donald J. Kabat, Kurt Kuehn, Philip A. Laskawy, Anne H. Margulies, Karyn Mashima, Norman S. Matthews, Mark E. Mlotek, Carol Raphael, E. Dianne Rekow, Bradley T. Sheares, and Louis W. Sullivan, with Henry Schein named as a nominal defendant. The Complaint asserts claims under the federal securities laws and state law relating to the allegations in the antitrust actions, the *In re Henry Schein, Inc. Securities Litigation*, and the City of Hollywood securities class action described above. The complaint seeks declaratory, injunctive, and monetary relief on behalf of Henry Schein. On January 6, 2020, counsel who filed the Finazzo case filed another, virtually identical putative shareholder derivative action on behalf of Henry Schein against the same defendants, asserting the same claims and seeking the same relief. That case, captioned *Mark Sloan v. Stanley M. Bergman, et al.*, is also pending in the U.S. District Court for the Eastern District of New York, Case No. 1:20-cv-0076. On January 24, 2020, the court consolidated the Finazzo and Sloan cases under the new caption *In re Henry Schein, Inc. Derivative Litigation*, No. 1:19-cv-06485-LDH-JO, and appointed the counsel in these cases as co-lead counsel for the consolidated action. The parties agreed to a resolution of this matter subject to various conditions, including court approval. The contemplated settlement, if

finally approved, would involve the adoption of certain procedures but would not involve the payment of any money except a fee to the plaintiffs' attorneys that is immaterial. The Court preliminarily approved the proposed settlement on June 10, 2020, and has scheduled a fairness hearing for September 22, 2020.

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 27, 2020, 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.

## ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Item 1A. "Risk factors" in our Annual Report on Form 10-K for the year ended December 28, 2019. We provide an update to the following risk factor.

***The recent COVID-19 pandemic and the responses of governments to it have had, and may continue to 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. In the future, our business, results of operations, cash flows, financial condition and liquidity may be negatively impacted by the effects of other disease outbreaks, epidemics, pandemics, or similar wide spread public health concerns and other natural disasters.***

The COVID-19 pandemic has had, and continues to have, an unprecedented impact on society, worldwide economic activity, and the health care sector (particularly, the dental market). As a global healthcare solutions company, the COVID-19 pandemic and the governmental responses to it have had, and may continue to 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. In March and April 2020, the dental market was severely impacted by COVID-19, with many, if not a majority, of practices being closed or open on a limited basis only. Although dental practice openings and patient volume recovery in the United States and many other countries have rebounded faster than originally anticipated, they still remain below pre-COVID-19 levels, material uncertainty remains and the potential for one or more significant resurgences of COVID-19 could cause a significant reduction in dental practice openings and patient volume recovery, or further delay the return to normal operations. Even after COVID-19 has subsided, we may continue to experience material adverse impacts to our business, results of operations and cash flows as a result of, among other things, its global economic impact, including any recession that has occurred or may occur in the future, or a prolonged period of economic slowdown or the reluctance of patients to return for elective dental or medical care.

The impacts and potential impacts from the COVID-19 pandemic include, but are not limited to:

- *Significant reductions in demand or significant volatility in demand for certain of our products.* For example, in March and April 2020, many dental offices in the United States performed only emergency procedures, and rescheduled wellness exams and elective procedures. Dental offices in other countries also have experienced closures or restricted operations, as have medical offices around the world. Such closures and restrictions impacted our customers' spending with us and have had a material adverse effect on our business, results of operations and cash flows. Although dental practice openings and patient volume recovery have rebounded faster than originally anticipated, capacity constraints in offices and demand-side factors may lead to continued reductions in demand or significant volatility in demand for our products. Additionally, significant reduction in demand for certain of our products or customers' decisions to delay the purchase of large equipment may result in us having increased inventory;
- *Shortage of Personal Protective Equipment (PPE).* Supply chain disruptions for PPE and an increased demand for these products has resulted, and may continue to result, in backorders of PPE and a potential scarcity in raw materials to make PPE. Prices for PPE have also increased. Although we have expanded our sourcing in critical product categories, added substitute products, and adapted our transportation model to shorten lead-times in product delivery, among other improvements, we still may not be able to supply our customers with the quantity of PPE products they demand, which may lead to our customers seeking alternative sources of supply. Furthermore, healthcare professionals' inability to obtain a sufficient quantity of PPE from us and other suppliers could limit capacity at such offices, which could result in the furtherance of the current material adverse impacts on our business, results of operations and cash flows, and could materially adversely affect our financial condition and liquidity. Conversely, we recorded significant charges in the second quarter for PPE inventory due to volatility of pricing for PPE, and, depending upon the course of the pandemic, if PPE demand suddenly decreases upon an oversupply relative to demand, our margins and the value of our PPE inventory could be further negatively impacted in future periods, which could result in a material adverse impact on our business, results of operations and cash flows;

- *Reduction in Peoples' Ability and Willingness to be in Public.* Although some restrictions recommended by several public health organizations, and implemented by many local governments, to slow and limit the transmission of COVID-19 (including business closures and restrictions, stay-at-home and similar measures) have been lifted or partially lifted, ongoing social distancing ordinances and similar restrictions, and the potential for one or more significant resurgences of COVID-19 may result in the re-imposition of governmental social distancing and other restrictions, and/or cause people to be less willing to go to elective medical and dental appointments, which could continue to materially adversely affect demand for our products. A lengthened period of materially suppressed demand would result in the furtherance of the current material adverse impacts on our business, results of operations and cash flows and could materially adversely affect our financial condition and liquidity;
- *Potential delays in customer payments, or defaults on our customer credit arrangements.* We generally sell products to customers with payment terms. If customers' cash flows or operating and financial performance deteriorate, or if they are unable to make scheduled payments or obtain credit, they may not be able to pay, or may delay payment to us. Likewise, for similar reasons, suppliers may restrict credit or impose more stringent payment terms. The inability of current and/or potential customers to pay us for our products and/or services or any demands by suppliers for more stringent payment terms may materially adversely affect our business, results of operations, cash flows, financial condition and liquidity and may limit the amounts we can borrow under our trade accounts receivable securitization;
- *Impact on third parties' ability to meet their obligations to the Company; impact on our ability to meet obligations to third parties.* Failure of third parties on which we rely, including our suppliers, contract manufacturers, distributors, contractors (including third party shippers), banks, joint venture partners and external business partners, to meet their obligations to the Company, or significant disruptions in their ability to do so, which may be caused by their own financial or operational difficulties, or by travel restrictions and border closures, may materially adversely affect our business, results of operations, cash flows, financial condition and liquidity. Certain of our contracts with supply partners contain minimum purchase requirements or include rebate provisions if we satisfy certain sales or purchasing targets that we may not be able to satisfy due to the impact of the COVID-19 pandemic. Rebate income recognized to date this year is less than rebates earned over the same period last year. Our failure to satisfy such contractual provisions or renegotiate more favorable terms could materially adversely affect our business, results of operations and cash flows;
- *Negative impact on our workforce and impact of adapted business practices.* The spread of COVID-19 has caused us to implement cost reduction measures (including a payroll cost reduction plan centered around furloughs, reduced pay and work hours, voluntary unpaid time off, suspension of the 401(k) match, and job reductions), modify our business practices (including employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences), and we may take further actions as may be required by government authorities or that we determine are in the best interests of our employees. Many of our employees shifted abruptly to working remotely and continue to do so. An extended period of modified pay and business practices and remote work arrangements could have a negative impact on employee morale, strain our business continuity plans, introduce operational risk (including but not limited to cybersecurity risks), and impair our ability to efficiently operate our business;
- *Significant changes in political conditions.* Significant changes in political conditions in markets in which we purchase and distribute our products have occurred and are expected to continue at least during the pendency of the pandemic, including quarantines, governmental or regulatory actions, closures or other restrictions that limit or close our operating facilities, restrict our employees' ability to travel or perform necessary business functions, or otherwise constrain the operations of our business partners, suppliers, or customers, which may materially adversely affect our business, results of operations, cash flows, financial condition and liquidity;
- *Potential impact on our ability to meet obligations under credit facilities.* Although we recently entered into amendments to our material credit facilities to, among other things, extend the maturity dates and temporarily provide additional flexibility under certain covenants, an extended negative impact of COVID-19 on our business, results of operations, cash flows, financial condition and liquidity could impact our ability to meet our obligations under credit facilities or outstanding long term debt, which contain maximum leverage ratios, and customary representations, warranties and affirmative covenants;

- *Volatility in the financial markets.* Volatility in the financial markets may materially adversely affect the availability and cost of credit to us;
- *Refocusing management resources to mitigate effects of COVID-19.* Our management is focused on mitigating the effects of COVID-19, which has required, and may continue to require for the duration of the pandemic, a large investment of time and resources across the Company, and may delay certain strategic and other plans which could materially adversely affect our business;
- *Potential increased costs associated with our self-insured medical insurance programs.* We may incur significant employee health care costs under our self-insurance medical insurance program if a large number of our employees and/or their covered family members become ill from COVID-19; and
- *Reputational risk associated with response to COVID-19.* If we do not respond appropriately to the COVID-19 pandemic, or if customers do not perceive our response to be adequate, we could suffer damage to our reputation and our brands, which could materially adversely affect our business.

The impact of COVID-19 may also exacerbate other risks discussed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 28, 2019, any of which could have a material adverse effect on us.

More generally, in the future our business, results of operations, cash flows, financial condition and liquidity may be negatively impacted by the effects of other disease outbreaks, epidemics, pandemics, similar wide spread public health concerns, and other natural disasters.

**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. As summarized in the table below, subsequent additional increases totaling \$3.7 billion, authorized by our Board of Directors, to the repurchase program provide for a total of \$3.8 billion of shares of our common stock to be repurchased under this program.

| <b>Date of Authorization</b> | <b>Amount of Additional Repurchases Authorized</b> |
|------------------------------|--|
| June 21, 2004                | \$ 100,000,000                                     |
| October 31, 2005             | 100,000,000  |
| March 28, 2007               | 100,000,000  |
| November 16, 2010            | 100,000,000  |
| August 18, 2011              | 200,000,000  |
| April 18, 2012               | 200,000,000  |
| November 12, 2012            | 300,000,000  |
| December 9, 2013             | 300,000,000  |
| December 4, 2014             | 300,000,000  |
| November 30, 2015            | 400,000,000  |
| October 18, 2016             | 400,000,000  |
| September 15, 2017           | 400,000,000  |
| December 12, 2018            | 400,000,000  |
| October 30, 2019             | 400,000,000  |

As of June 27, 2020, we had repurchased approximately \$3.6 billion of common stock (75,563,289 shares) under these initiatives, with \$201.2 million available for future common stock share repurchases.

As a result of the COVID-19 pandemic, on April 6, 2020, we announced a temporary suspension of our share repurchase program in an effort to preserve cash and exercise caution in this uncertain period.

During the fiscal quarter ended June 27, 2020, we did not make any repurchases of our common stock. The maximum number of shares that could 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. The maximum number of shares that could be repurchased as of April 25, 2020, May 30, 2020, and June 27, 2020 were 3,840,642, 3,313,756 and 3,550,578, respectively.

ITEM 6. EXHIBITS

Exhibits.

- [4.1](#) [First Amendment to Second Amended and Restated Multicurrency Private Shelf Agreement, dated as of June 23, 2020, by and among us, PGIM, Inc. and each Prudential affiliate which becomes party thereto. \(Incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on June 25, 2020.\)](#)
- [4.2](#) [First Amendment to Second Amended and Restated Master Note Facility, dated as of June 23, 2020, by and among us, NYL Investors LLC and each New York Life affiliate which becomes party thereto. \(Incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed on June 25, 2020.\)](#)
- [4.3](#) [First Amendment to Second Amended and Restated Multicurrency Master Note Purchase Agreement, dated as of June 23, 2020, by and among us, Metropolitan Life Insurance Company, MetLife Investment Management, LLC and each MetLife affiliate which becomes party thereto. \(Incorporated by reference to Exhibit 4.3 to our Current Report on Form 8-K filed on June 25, 2020.\)](#)
- [10.1](#) [Credit Agreement, dated as of April 17, 2020, among us, the several lenders parties thereto, JPMorgan Chase Bank, N.A., as administrative agent, joint lead arranger and joint bookrunner, and U.S. Bank National Association, as joint lead arranger and joint bookrunner. \(Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on April 20, 2020.\)](#)
- [10.2](#) [Second Amendment, dated as of April 17, 2020, among us, the several lenders parties thereto, and JPMorgan Chase Bank, N.A., as administrative agent. \(Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on April 20, 2020.\)](#)
- [10.3](#) [Amendment Number Two to the Henry Schein, Inc. Supplemental Executive Retirement Plan, amended and restated effective as of January 1, 2014. \(Incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q filed for the quarter ended March 28, 2020 filed on May 5, 2020.\)\\*\\*](#)
- [10.4](#) [Amendment Number Six to the Henry Schein, Inc. Deferred Compensation Plan. \(Incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q filed for the quarter ended March 28, 2020 filed on May 5, 2020.\)\\*\\*](#)
- [10.5](#) [Voluntary Salary Waiver effective April 6, 2020, by and between Henry Schein, Inc. and Stanley M. Bergman. \(Incorporated by reference to Exhibit 10.5 to our Quarterly Report on Form 10-Q filed for the quarter ended March 28, 2020 filed on May 5, 2020.\)\\*\\*](#)
- [10.6](#) [Henry Schein, Inc. Stock Incentive Plan, as amended and restated effective as of May 21, 2020. \(Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on May 26, 2020.\)\\*\\*](#)
- [10.7](#) [Limited Waiver dated as of May 22, 2020 to Receivables Purchase Agreement, dated as of April 17, 2013, by and among us, as servicer, HSFR, Inc., as seller, lender, as agent and the various purchaser groups from time to time party thereto, as amended.+](#)
- [10.8](#) [Amendment No. 6 dated as of June 22, 2020 to the Receivables Purchase Agreement, dated as of April 17, 2013, by and among us, as servicer, HSFR, Inc., as seller, lender, as agent and the various purchaser groups from time to time party thereto, as amended. \(Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on June 25, 2020.\)](#)
- [10.9](#) [Voluntary Salary Waiver effective June 19, 2020, by and between Henry Schein, Inc. and Stanley M. Bergman. \\*\\*+](#)
- [31.1](#) [Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+](#)

|                      |  |
|----------------------|--|
| <a href="#">31.2</a> | <a href="#">Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+</a>  |
| <a href="#">32.1</a> | <a href="#">Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.+</a>  |
| 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 27, 2020, formatted in Inline XBRL (included within Exhibit 101 attachments).+ |

+ Filed or furnished herewith.

\*\* Indicates management contract or compensatory plan or agreement.



**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/ Steven Paladino

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Steven Paladino  
Executive Vice President and  
Chief Financial Officer  
(Authorized Signatory and Principal Financial  
and Accounting Officer)

Dated: August 4, 2020

**LIMITED WAIVER TO  
TO RECEIVABLES PURCHASE AGREEMENT**

This LIMITED WAIVER TO RECEIVABLES PURCHASE AGREEMENT, dated as of May 22, 2020 (this "Waiver Agreement"), is entered into among HSFR, INC., a Delaware corporation, as seller (the "Seller"), HENRY SCHEIN, INC., as initial Servicer (the "Servicer"), THE PURCHASER AGENTS LISTED ON THE SIGNATURE PAGES HERETO (the "Purchaser Agents"), and MUFG BANK, LTD. (F/K/A THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.), as agent (in such capacity, together with its successors and assigns in such capacity, the "Agent") for each Purchaser Group.

RECITALS

A. The Seller, the Servicer, purchasers from time to time party thereto, Purchaser Agents and Agent are parties to a Receivables Purchase Agreement, dated as of April 17, 2013 (as amended by that certain Omnibus Amendment No. 1, dated as of July 22, 2013, that certain Omnibus Amendment No. 2, dated as of April 21, 2014, that certain Amendment No. 1 to Receivables Purchase Agreement, dated as of September 22, 2014, that certain Amendment No. 2 to Receivables Purchase Agreement, dated as of April 14, 2015, that certain Amendment No. 3 to Receivables Purchase Agreement, dated as of June 1, 2016, that certain Amendment No. 4 to Receivables Purchase Agreement, dated as of July 6, 2017, and that certain Amendment No. 5 to Receivables Purchase Agreement, dated as of May 13, 2019 and as further amended, restated, modified or supplemented through the date hereof, the "RPA").

B. WHEREAS, in accordance with Section 13.1 of the RPA, the Seller and the Agent, with the consent of the Required Purchaser Agents, may enter into waivers of any provisions of any Transaction Document from time to time;

C. WHEREAS, pursuant to and in accordance with Section 13.1 of the RPA, the parties desire to waive a breach under the RPA as provided herein.

NOW, THEREFORE, based upon the above Recitals, the mutual premises and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the undersigned, intending to be legally bound, hereby agree as follows:

**SECTION 1. Definitions and Interpretation.** Capitalized terms are used in this Waiver Agreement as defined in Exhibit I to the Receivables Purchase Agreement.

**SECTION 2. Limited Waiver.**

(a) The parties hereto acknowledge that (i) pursuant to Section 9.1(f)(iv) of the RPA, it is a Termination Event if, the average of the Portfolio Turnover, computed for each of the immediately preceding three months shall exceed 45 days, and (ii) as of April 25, 2020, the average of the Portfolio Turnover, computed for each of the immediately preceding three months (including the Calculation Period ending on April 25, 2020) is 49.89 days (the "Specified Breach"). The Seller each hereby requests that each of the other parties hereto (other than the Servicer) waive the Specified Breach and any Termination Event or other penalties or effects arising solely from the Specified Breach (the "Resulting Events"). On the terms and subject to the conditions set forth herein, the Agent and each of the Purchaser Agents hereby waive the Specified Breach and the Resulting Events (the "Waiver"); provided that, for the avoidance of doubt, the Waiver shall not apply to any Cut-Off Date other than April 25, 2020.

(b) For the avoidance of doubt, each of the parties hereto acknowledges that the Waiver shall in no way obligate any of the Purchasers, Purchaser Agents, or Agent to agree to any future or additional amendment to the Transaction Documents or additional waiver with respect thereto, each of which shall remain in such party's sole and absolute discretion. The Waiver is a one-time waiver and shall not be construed to be (i) a waiver as to non-compliance of any of the other provisions of the RPA or for any other period of time or (ii) an amendment or modification of the RPA.

**SECTION 3. No Other Waivers.** Except as expressly waived herein, all provisions of the RPA shall remain in full force and effect. This Waiver Agreement shall not be deemed to expressly or impliedly waive, amend or supplement any provision of the RPA other than as expressly set forth herein and shall not constitute a novation of the RPA.

**SECTION 4. Representations and Warranties.** Each of the Seller and the Servicer hereby certifies, represents and warrants to the Agent, each Purchaser Agent and each Purchaser that on and as of the date hereof:

(a) Except as a result of the Specified Breach and the Resulting Events, each of its representations and warranties contained in Article V of the Receivables Purchase Agreement is true and correct, in all material respects, on and as of the date hereof, except that with respect to the representations and warranties contained in Section 5.1(q)(ii) and 5.3(k)(ii), the impacts of the existing Coronavirus pandemic on the business, operations or financial condition of the Servicer and its Consolidated Subsidiaries taken as a whole or the Seller that have occurred of the type disclosed in the Servicer's public filings with the Securities and Exchange Commission will be disregarded; and

(b) Except as a result of the Specified Breach and the Resulting Events, no Termination Event or Unmatured Termination Event exists.

**SECTION 5. Conditions to Effectiveness.** The effectiveness of this Waiver Agreement is conditioned upon its execution and delivery by the parties.

**SECTION 6. Counterparts.** This Waiver Agreement may be executed in any number of counterparts and by different parties on separate counterparts, and each counterpart shall be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument. Counterparts of this Waiver Agreement may be delivered by facsimile transmission or other electronic transmission, and such counterparts shall be as effective as if original counterparts had been physically delivered, and thereafter shall be binding on the parties hereto and their respective successors and assigns.

**SECTION 7. Governing Law.** This Waiver Agreement shall be governed by, and construed in accordance with the law of the State of New York without regard to the principles of conflicts of law thereof (other than Sections 5-1401 and 5-1402 of the New York General Obligations Law).

**SECTION 8. Section Headings.** The various headings of this Waiver Agreement are inserted for convenience only and shall not affect the meaning or interpretation of this Waiver Agreement, the Receivables Purchase Agreement or any other Transaction Document or any provision hereof or thereof.

**SECTION 9. Transaction Document.** This Waiver Agreement shall constitute a Transaction Document under the Receivables Purchase Agreement.

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IN WITNESS WHEREOF, the parties hereto have caused this Waiver Agreement to be duly executed by their respective officers hereunto duly authorized as of the day and year first above written.

HSFR INC.,  
as Seller

By: /s/ Michael Amodio  
Name: Michael Amodio  
Title: VP, Treasurer

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HENRY SCHEIN, INC.,  
as initial Servicer

By: /s/ Michael Amodio  
Name: Michael Amodio  
Title: VP, Treasurer

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MUFG BANK, LTD. (F/K/A THE BANK OF  
TOKYO-MITSUBISHI UFJ, LTD.),  
as the Agent and a Purchaser Agent

By: /s/ Eric Williams  
Name: Eric Williams  
Title: Managing Director

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To: The Compensation Committee of the Board of Directors of Henry Schein, Inc.

In connection with the response of Henry Schein, Inc. ("Company") to the COVID-19 pandemic, on April 3, 2020, I voluntarily and irrevocably waived, effective as of April 6, 2020 ("Effective Date"), 100% of my Base Salary (as defined in that certain Amended and Restated Employment Agreement, dated as of August 8, 2019, by and between me and the Company ("Employment Agreement")), less any amounts necessary to cover any contributions I make to any benefit plans provided to me by the Company commencing on the Effective Date through June 30, 2020 (such period, the "Initial Waiver Period"). I hereby agree to extend such waiver and voluntarily and irrevocably waive 100% of my Base Salary, less any amounts necessary to cover any contributions I make to any benefit plans provided to me by the Company, through and including the last pay period of the Company's fiscal fourth quarter 2020 or an earlier date if determined by the Compensation Committee of the Company's Board of Directors in its sole and absolute discretion (the "Subsequent Waiver Period" and together with the Initial Waiver Period, the "Waiver Period"). This waiver will be reflected as a reduction in my pay during the Waiver Period and is not a deferral. I understand the Company may request a further waiver subsequent to the Waiver Period, in which case, if I consent to a further waiver, I will provide a writing consenting to such extension.

Notwithstanding the foregoing, this waiver shall be disregarded and my salary will be deemed unchanged solely for purposes of calculating (i) any entitlement I may have to any annual or long term incentive award under the Employment Agreement or other agreement between me and the Company or any affiliate ("Agreement"), or (ii) any severance which I may be granted, or to which I may be entitled under any Agreement (including without limitation, the calculation of the "Make-Up Pension Payment", as set forth in Section 5.3(b)(ii) the Employment Agreement), should I have a qualifying termination of employment with the Company during the Waiver Period. I also acknowledge that:

- (i) I hereby consent in writing to the waiver of my Base Salary and such waiver does not, nor is intended to, constitute "good reason" or breach under any Agreement;
- (ii) my waiver does not, nor is intended to, confer on me any rights or entitlements, or trigger any rights or entitlements, from the Company or any of its affiliates; and
- (iii) except with respect to my salary waiver for the Waiver Period as described above, the terms and conditions of any Agreement shall remain in full force and effect and shall not be deemed to be amended or supplemented in any way.

Although I acknowledge that this email constitutes a valid waiver and consent for all purposes (including under any Agreement), I will deliver a signed copy of this email to the Company by overnight courier or as otherwise required by the Company in accordance with the Employment Agreement as soon as administratively possible.

/s/ Stanley M. Bergman

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Stanley M. Bergman

Dated: June 20, 2020

**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 4, 2020

/s/ Stanley M. Bergman

Stanley M. Bergman  
Chairman and Chief Executive Officer

**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, Steven Paladino, 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 4, 2020

/s/ Steven Paladino

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Steven Paladino  
Executive Vice President and  
Chief Financial Officer

**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 27, 2020, 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, Steven Paladino, Executive 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.

Dated: August 4, 2020

/s/ Stanley M. Bergman

Stanley M. Bergman  
Chairman and Chief Executive Officer

Dated: August 4, 2020

/s/ Steven Paladino

Steven Paladino  
Executive 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.