

**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 March 27, 2021

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes

No

As of April 26, 2021, there were 140,696,094 shares of the registrant's common stock outstanding.

HENRY SCHEIN, INC.

INDEX

PART I. FINANCIAL INFORMATION

	<u>Page</u>
<u>ITEM 1. Consolidated Financial Statements:</u>	
<u>Balance Sheets as of March 27, 2021 and December 26, 2020</u>	3
<u>Statements of Income for the three months ended</u> <u>March 27, 2021 and March 28, 2020</u>	4
<u>Statements of Comprehensive Income for the three months ended</u> <u>March 27, 2021 and March 28, 2020</u>	5
<u>Statement of Changes in Stockholders' Equity for the three months ended</u> <u>March 27, 2021 and March 28, 2020</u>	6
<u>Statements of Cash Flows for the three months ended</u> <u>March 27, 2021 and March 28, 2020</u>	7
<u>Notes to Consolidated Financial Statements</u>	8
<u>Note 1 – Basis of Presentation</u>	8
<u>Note 2 – Critical Accounting Policies, Accounting Pronouncements Adopted</u> <u>and Recently Issued Accounting Standards</u>	9
<u>Note 3 – Revenue from Contracts with Customers</u>	10
<u>Note 4 – Segment Data</u>	11
<u>Note 5 – Debt</u>	12
<u>Note 6 – Leases</u>	15
<u>Note 7 – Redeemable Noncontrolling Interests</u>	17
<u>Note 8 – Comprehensive Income</u>	17
<u>Note 9 – Fair Value Measurements</u>	19
<u>Note 10 – Business Acquisitions</u>	21
<u>Note 11 – Plans of Restructuring</u>	22
<u>Note 12 – Earnings Per Share</u>	23
<u>Note 13 – Income Taxes</u>	24
<u>Note 14 – Derivatives and Hedging Activities</u>	25
<u>Note 15 – Stock-Based Compensation</u>	26
<u>Note 16 – Supplemental Cash Flow Information</u>	28
<u>Note 17 – Legal Proceedings</u>	28
<u>Note 18 – Related Party Transactions</u>	31
<u>ITEM 2. Management's Discussion and Analysis of</u> <u>Financial Condition and Results of Operations</u>	32
<u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u>	46
<u>ITEM 4. Controls and Procedures</u>	47
<u>PART II. OTHER INFORMATION</u>	
<u>ITEM 1. Legal Proceedings</u>	48
<u>ITEM 1A. Risk Factors</u>	48
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	48
<u>ITEM 6. Exhibits</u>	49
<u>Signature</u>	50

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

	March 27, 2021	December 26, 2020
	<u>(unaudited)</u>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 144,538	\$ 421,185
Accounts receivable, net of reserves of \$79,936 and \$88,030	1,317,546	1,424,787
Inventories, net	1,626,185	1,512,499
Prepaid expenses and other	<u>482,356</u>	<u>432,944</u>
Total current assets	3,570,625	3,791,415
Property and equipment, net	353,248	342,004
Operating lease right-of-use assets	301,759	288,847
Goodwill	2,587,438	2,504,392
Other intangibles, net	597,619	479,429
Investments and other	<u>369,231</u>	<u>366,445</u>
Total assets	<u>\$ 7,779,920</u>	<u>\$ 7,772,532</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 909,575	\$ 1,005,655
Bank credit lines	67,415	73,366
Current maturities of long-term debt	111,176	109,836
Operating lease liabilities	68,580	64,716
Accrued expenses:		
Payroll and related	286,106	295,329
Taxes	146,755	138,671
Other	<u>533,161</u>	<u>595,529</u>
Total current liabilities	2,122,768	2,283,102
Long-term debt	506,461	515,773
Deferred income taxes	42,254	30,065
Operating lease liabilities	248,624	238,727
Other liabilities	<u>410,184</u>	<u>392,781</u>
Total liabilities	3,330,291	3,460,448
Redeemable noncontrolling interests	452,899	327,699
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 1,000,000 shares authorized, none outstanding	-	-
Common stock, \$0.01 par value, 480,000,000 shares authorized, 141,310,113 outstanding on March 27, 2021 and 142,462,571 outstanding on December 26, 2020	1,413	1,425
Additional paid-in capital	-	-
Retained earnings	3,493,060	3,454,831
Accumulated other comprehensive loss	<u>(136,305)</u>	<u>(108,084)</u>
Total Henry Schein, Inc. stockholders' equity	3,358,168	3,348,172
Noncontrolling interests	<u>638,562</u>	<u>636,213</u>
Total stockholders' equity	3,996,730	3,984,385
Total liabilities, redeemable noncontrolling interests and stockholders' equity	<u>\$ 7,779,920</u>	<u>\$ 7,772,532</u>

See accompanying notes.

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

	Three Months Ended	
	March 27, 2021	March 28, 2020
Net sales	\$ 2,924,961	\$ 2,428,871
Cost of sales	2,034,110	1,682,857
Gross profit	890,851	746,014
Operating expenses:		
Selling, general and administrative	657,992	567,362
Restructuring costs	2,931	4,787
Operating income	229,928	173,865
Other income (expense):		
Interest income	1,983	3,190
Interest expense	(6,485)	(7,812)
Other, net	309	(220)
Income from continuing operations before taxes, equity in earnings of affiliates and noncontrolling interests	225,735	169,023
Income taxes	(56,685)	(37,910)
Equity in earnings of affiliates	5,878	2,734
Net income from continuing operations	174,928	133,847
Loss from discontinued operations	-	(282)
Net Income	174,928	133,565
Less: Net income attributable to noncontrolling interests	(8,931)	(3,304)
Net income attributable to Henry Schein, Inc.	\$ 165,997	\$ 130,261
Amounts attributable to Henry Schein, Inc.:		
Continuing operations	\$ 165,997	\$ 130,543
Discontinued operations	-	(282)
Net income attributable to Henry Schein, Inc.	\$ 165,997	\$ 130,261
Earnings per share from continuing operations attributable to Henry Schein, Inc.:		
Basic	\$ 1.17	\$ 0.91
Diluted	\$ 1.16	\$ 0.91
Loss per share from discontinued operations attributable to Henry Schein, Inc.:		
Basic	\$ -	\$ 0.00
Diluted	\$ -	\$ 0.00
Earnings per share attributable to Henry Schein, Inc.:		
Basic	\$ 1.17	\$ 0.91
Diluted	\$ 1.16	\$ 0.91
Weighted-average common shares outstanding:		
Basic	142,298	142,967
Diluted	143,398	143,095

See accompanying notes.

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

	Three Months Ended	
	March 27, 2021	March 28, 2020
Net income	\$ 174,928	\$ 133,565
Other comprehensive loss, net of tax:		
Foreign currency translation loss	(38,481)	(89,312)
Unrealized gain from foreign currency hedging activities	3,361	15,143
Unrealized investment loss	(6)	(9)
Pension adjustment gain	807	724
Other comprehensive loss, net of tax	<u>(34,319)</u>	<u>(73,454)</u>
Comprehensive income	140,609	60,111
Comprehensive (income) loss attributable to noncontrolling interests:		
Net income	(8,931)	(3,304)
Foreign currency translation loss	6,098	13,179
Comprehensive (income) loss attributable to noncontrolling interests	<u>(2,833)</u>	<u>9,875</u>
Comprehensive income attributable to Henry Schein, Inc.	<u>\$ 137,776</u>	<u>\$ 69,986</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		Additional Paid-in Capital	Retained Earnings	Accumulated Other		Noncontrolling Interests	Total Stockholders' Equity
	\$.01 Par Value				Income / (Loss)			
	Shares	Amount						
Balance, December 26, 2020	142,462,571	\$ 1,425	\$ -	\$ 3,454,831	\$ (108,084)	\$ 636,213	\$ 3,984,385	
Net income (excluding \$7,053 attributable to Redeemable noncontrolling interests from continuing operations)	-	-	-	165,997	-	1,878	167,875	
Foreign currency translation loss (excluding loss of \$6,173 attributable to Redeemable noncontrolling interests)	-	-	-	-	(32,383)	75	(32,308)	
Unrealized gain from foreign currency hedging activities, net of tax of \$1,334	-	-	-	-	3,361	-	3,361	
Unrealized investment loss, net of tax benefit of \$2	-	-	-	-	(6)	-	(6)	
Pension adjustment gain, net of tax of \$219	-	-	-	-	807	-	807	
Dividends paid	-	-	-	-	-	(77)	(77)	
Change in fair value of redeemable securities	-	-	(45,520)	-	-	-	(45,520)	
Initial noncontrolling interests and adjustments related to business acquisitions	-	-	-	-	-	473	473	
Repurchase and retirement of common stock	(1,325,242)	(13)	(12,250)	(76,396)	-	-	(88,659)	
Stock-based compensation expense	281,645	3	12,787	-	-	-	12,790	
Settlement of stock-based compensation awards	-	-	787	-	-	-	787	
Shares withheld for payroll taxes	(108,861)	(2)	(7,176)	-	-	-	(7,178)	
Transfer of charges in excess of capital	-	-	51,372	(51,372)	-	-	-	
Balance, March 27, 2021	141,310,113	\$ 1,413	\$ -	\$ 3,493,060	\$ (136,305)	\$ 638,562	\$ 3,996,730	

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other		Noncontrolling Interests	Total Stockholders' Equity
	\$.01 Par Value				Income / (Loss)			
	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 \$2,839 attributable to Redeemable noncontrolling interests from continuing operations)	-	-	-	130,261	-	465	130,726	
Foreign currency translation loss (excluding loss of \$13,027 attributable to Redeemable noncontrolling interests)	-	-	-	-	(76,133)	(152)	(76,285)	
Unrealized gain from foreign currency hedging activities, net of tax of \$5,090	-	-	-	-	15,143	-	15,143	
Unrealized investment loss, net of tax benefit of \$2	-	-	-	-	(9)	-	(9)	
Pension adjustment gain, net of tax of \$324	-	-	-	-	724	-	724	
Dividends paid	-	-	-	-	-	(499)	(499)	
Purchase of noncontrolling interests	-	-	(1,597)	-	-	(692)	(2,289)	
Change in fair value of redeemable securities	-	-	13,072	-	-	-	13,072	
Repurchase and retirement of common stock	(1,200,000)	(12)	(10,949)	(62,828)	-	-	(73,789)	
Stock-based compensation credit	507,410	5	(17,519)	-	-	-	(17,514)	
Shares withheld for payroll taxes	(227,509)	(3)	(13,871)	-	-	-	(13,874)	
Settlement of stock-based compensation awards	-	-	660	-	-	-	660	
Separation of Animal Health business	-	-	1	-	-	-	1	
Balance, March 28, 2020	142,433,360	\$ 1,424	\$ 17,565	\$ 3,183,236	\$ (227,648)	\$ 631,215	\$ 3,605,792	

See accompanying notes.

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

	Three Months Ended	
	March 27, 2021	March 28, 2020
Cash flows from operating activities:		
Net income	\$ 174,928	\$ 133,565
Loss from discontinued operations	-	(282)
Income from continuing operations	174,928	133,847
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	49,363	46,983
Impairment charge on intangible assets	-	2,000
Stock-based compensation (credit) expense	12,790	(17,514)
Provision for (benefit from) losses on trade and other accounts receivable	(2,696)	14,543
Provision for deferred income taxes	11,171	2,645
Equity in earnings of affiliates	(5,878)	(2,734)
Distributions from equity affiliates	5,139	2,413
Changes in unrecognized tax benefits	2,804	(1,575)
Other	35	(13,924)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	118,795	(1,283)
Inventories	(78,085)	73,038
Other current assets	(45,310)	(22,002)
Accounts payable and accrued expenses	(179,725)	(137,680)
Net cash provided by operating activities from continuing operations	63,331	78,757
Net cash used in operating activities from discontinued operations	-	(282)
Net cash provided by operating activities	63,331	78,475
Cash flows from investing activities:		
Purchases of fixed assets	(13,843)	(23,008)
Payments related to equity investments and business acquisitions, net of cash acquired	(204,027)	(37,947)
Proceeds from sale of equity investment	-	12,000
Repayments from loan to affiliate	139	1,137
Other	(5,513)	(5,787)
Net cash used in investing activities from continuing operations	(223,244)	(53,605)
Net cash used in investing activities from discontinued operations	-	-
Net cash used in investing activities	(223,244)	(53,605)
Cash flows from financing activities:		
Net change in bank borrowings	(241)	358,639
Proceeds from issuance of long-term debt	-	250,000
Principal payments for long-term debt	(17,781)	(8,478)
Debt issuance costs	(85)	(58)
Payments for repurchases of common stock	(88,659)	(73,789)
Payments for taxes related to shares withheld for employee taxes	(6,158)	(13,155)
Distributions to noncontrolling shareholders	(6,520)	(3,664)
Acquisitions of noncontrolling interests in subsidiaries	-	(14,925)
Payments to Henry Schein Animal Health Business	-	(2,962)
Net cash provided by (used in) financing activities from continuing operations	(119,444)	491,608
Net cash provided by financing activities from discontinued operations	-	282
Net cash provided by (used in) financing activities	(119,444)	491,890
Effect of exchange rate changes on cash and cash equivalents from continuing operations	2,710	(5,489)
Effect of exchange rate changes on cash and cash equivalents from discontinued operations	-	-
Net change in cash and cash equivalents from continuing operations	(276,647)	511,271
Net change in cash and cash equivalents from discontinued operations	-	-
Cash and cash equivalents, beginning of period	421,185	106,097
Cash and cash equivalents, end of period	\$ 144,538	\$ 617,368

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 March 27, 2021 and December 26, 2020, there were no trade accounts receivable that were restricted to settle obligations of this VIE, nor were there liabilities of the VIE where the creditors have recourse to us.

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 26, 2020.

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 three months ended March 27, 2021 are not necessarily indicative of the results to be expected for any other interim period or for the year ending December 25, 2021.

In March 2020, the World Health Organization declared the Novel Coronavirus Disease 2019 (“COVID-19”) a pandemic. The COVID-19 pandemic negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of global financial markets. In response, many countries 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 of 2020. Demand increased in the second half of 2020 and has continued into the first quarter of 2021, resulting in growth over the prior year driven by sales of personal protective equipment (PPE) and COVID-19 related products.

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 definite-lived intangible asset valuation; inventory valuation; equity investment valuation; assessment of the annual effective tax rate; valuation of deferred income taxes and income tax contingencies; the allowance for doubtful accounts; hedging activity; 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, primarily in the second quarter of 2020. In the latter half of the second quarter of 2020, dental and medical practices began to re-open worldwide, and continued to do so during the second half of 2020. During the first quarter of 2021, patient traffic levels returned to levels approaching pre-pandemic levels, although certain regions in the U.S. and internationally are experiencing an increase in COVID-19 cases. There is an ongoing risk that the COVID-19 pandemic may again have a material adverse effect on our business, results of operations and cash flows and may result in a material adverse effect on our financial condition and liquidity. However, the extent of the potential impact cannot be reasonably estimated at this time.

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

Critical Accounting Policies

There have been no material changes in our critical accounting policies during the three months ended March 27, 2021, 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 26, 2020, except as follows:

Accounting Pronouncements Adopted

In December 2019, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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. Our adoption of ASU 2019 - 12 did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Standards

In August 2020, the FASB issued ASU No. 2020-06, “Debt—Debt with Conversion and Other Options” (Subtopic 470-20) and “Derivatives and Hedging— in Entity’s Own Equity” (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity (“ASU 2020-06”). ASU 2020-06 simplifies the accounting for convertible instruments. In addition to eliminating certain accounting models, this ASU includes improvements to the disclosures for convertible instruments and earnings-per-share (EPS) guidance and amends the guidance for the derivatives scope exception for contracts in an entity’s own equity. ASU 2020-06 is effective for fiscal years beginning after December 15, 2021. 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 3 – Revenue from Contracts with Customers

Revenue is recognized in accordance with policies disclosed in Item 8 of our Annual Report on Form 10-K for the year ended December 26, 2020.

Disaggregation of Revenue

The following table disaggregates our revenue by segment and geography:

	Three Months Ended		
	March 27, 2021		
	North America	International	Global
Revenues:			
Health care distribution			
Dental	\$ 1,044,783	744,145	1,788,928
Medical	965,127	27,910	993,037
Total health care distribution	2,009,910	772,055	2,781,965
Technology and value-added services	121,937	21,059	142,996
Total revenues	\$ 2,131,847	\$ 793,114	\$ 2,924,961

	Three Months Ended		
	March 28, 2020		
	North America	International	Global
Revenues:			
Health care distribution			
Dental	\$ 888,372	586,704	1,475,076
Medical	778,028	22,660	800,688
Total health care distribution	1,666,400	609,364	2,275,764
Technology and value-added services	113,498	18,467	131,965
Total excluding Corporate TSA revenues ⁽¹⁾	1,779,898	627,831	2,407,729
Corporate TSA revenues ⁽¹⁾	-	21,142	21,142
Total revenues	\$ 1,779,898	\$ 648,973	\$ 2,428,871

(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 ended in December 2020. See [Note-18 Related Party Transactions](#) for further information.

At December 26, 2020, the current portion of contract liabilities of \$71.5 million was reported in Accrued expenses: Other, and \$8.2 million related to non-current contract liabilities were reported in Other liabilities. During the three months ended March 27, 2021, we recognized in revenue \$32.9 million of the amounts that were previously deferred at December 26, 2020. At March 27, 2021, the current and non-current portion of contract liabilities were \$73.7 million and \$9.5 million, respectively.

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

Note 4 – Segment Data

We conduct our business through two reportable segments: (i) health care distribution and (ii) technology and value-added services. These segments offer different products and services to the same customer base.

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:

	Three Months Ended	
	March 27, 2021	March 28, 2020
Net Sales:		
Health care distribution ⁽¹⁾		
Dental	\$ 1,788,928	\$ 1,475,076
Medical	993,037	800,688
Total health care distribution	<u>2,781,965</u>	<u>2,275,764</u>
Technology and value-added services ⁽²⁾	<u>142,996</u>	<u>131,965</u>
Total excluding Corporate TSA revenue	2,924,961	2,407,729
Corporate TSA revenues ⁽³⁾	-	21,142
Total	<u>\$ 2,924,961</u>	<u>\$ 2,428,871</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, personal protective equipment 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 ended in December 2020. See [Note-18 Related Party Transactions](#) for further information.

	Three Months Ended	
	March 27, 2020	March 28, 2020
Operating Income:		
Health care distribution	\$ 197,932	\$ 148,167
Technology and value-added services	31,996	25,698
Total	<u>\$ 229,928</u>	<u>\$ 173,865</u>

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

Note 5 – Debt*Bank Credit Lines*

Bank credit lines consisted of the following:

	March 27, 2021	December 26, 2020
Revolving credit agreement	\$ -	\$ -
Other short-term bank credit lines	67,415	73,366
Total	<u>\$ 67,415</u>	<u>\$ 73,366</u>

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 most LIBOR rates to be discontinued immediately after December 31, 2021, while the remaining LIBOR rates will be discontinued immediately after June 30, 2023, 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 March 27, 2021, and December 26, 2020, we had no borrowings on this revolving credit facility. As of March 27, 2021, and December 26, 2020, there were \$9.3 million and \$9.5 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 March 4, 2021 we repaid the outstanding obligations and terminated the lender commitments under our \$700 million 364-day credit agreement which was entered into on April 17, 2020. This facility was originally scheduled to mature on April 16, 2021.

Other Short-Term Credit Lines

As of March 27, 2021 and December 26, 2020, we had various other short-term bank credit lines available, of which \$67.4 million and \$73.4 million, respectively, were outstanding. At March 27, 2021 and December 26, 2020, borrowings under all of these credit lines had a weighted average interest rate of 4.52% and 4.14%, respectively.

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

Long-term debt

Long-term debt consisted of the following:

	March 27, 2021	December 26, 2020
Private placement facilities	\$ 606,355	\$ 613,498
Note payable	-	1,554
Various collateralized and uncollateralized loans payable with interest, in varying installments through 2023 at interest rates ranging from 2.45% to 4.27% at March 27, 2021 and ranging from 2.62% to 4.27% at December 26, 2020	5,969	4,596
Finance lease obligations (see Note 7)	5,313	5,961
Total	<u>617,637</u>	<u>625,609</u>
Less current maturities	<u>(111,176)</u>	<u>(109,836)</u>
Total long-term debt	<u>\$ 506,461</u>	<u>\$ 515,773</u>

Private Placement Facilities

Our private placement facilities, with three insurance companies, have a total facility amount of \$1 billion, and are available on an uncommitted basis at fixed rate economic terms to be agreed upon at the time of issuance, from time to time through June 23, 2023. The facilities allow us to issue senior promissory notes to the lenders at a fixed rate based on an agreed upon spread over applicable treasury notes at the time of issuance. The term of each possible issuance will be selected by us and can range from five to 15 years (with an average life no longer than 12 years). The proceeds of any issuances under the facilities will be used for general corporate purposes, including working capital and capital expenditures, to refinance existing indebtedness and/or to fund potential acquisitions. The agreements provide, among other things, that we maintain certain maximum leverage ratios, and contain restrictions relating to subsidiary indebtedness, liens, affiliate transactions, disposal of assets and certain changes in ownership. These facilities contain make-whole provisions in the event that we pay off the facilities prior to the applicable due dates.

On March 5, 2021, we amended the private placement facilities to, among other things, (a) modify the financial covenant from being based on a net leverage ratio to a total leverage ratio and (b) restore the maximum maintenance total leverage ratio to 3.25x and remove the 1.00% interest rate increase triggered if the net leverage ratio were to exceed 3.0x.

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

The components of our private placement facility borrowings as of March 27, 2021 are presented in the following table (in thousands):

<u>Date of Borrowing</u>	<u>Amount of Borrowing Outstanding</u>	<u>Borrowing Rate</u>	<u>Due Date</u>
January 20, 2012 ⁽¹⁾	\$ 7,143	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
September 2, 2020	100,000	2.35	September 2, 2030
Less: Deferred debt issuance costs	(788)		
	<u>\$ 606,355</u>		

(1) 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 and was amended to adjust certain covenant levels for 2020. As of March 27, 2021 and December 26, 2020, there were no borrowings outstanding under this securitization facility. At March 27, 2021, the interest rate on borrowings under this facility was based on the asset-backed commercial paper rate of 0.18% plus 0.95%, for a combined rate of 1.13%. At December 26, 2020, the interest rate on borrowings under this facility was based on the asset-backed commercial paper rate of 0.22% plus 0.95%, for a combined rate of 1.17%.

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.

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

Note 6 – 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 approximately 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	
	March 27, 2021	March 28, 2020
Operating lease cost: ⁽¹⁾	\$ 23,106	\$ 22,079
Finance lease cost:		
Amortization of right-of-use assets	604	432
Interest on lease liabilities	26	37
Total finance lease cost	<u>\$ 630</u>	<u>\$ 469</u>

(1) Includes variable lease expenses.

Supplemental balance sheet information related to leases is as follows:

	March 27, 2021	December 26, 2020
Operating Leases:		
Operating lease right-of-use assets	\$ 301,759	\$ 288,847
Current operating lease liabilities	68,580	64,716
Non-current operating lease liabilities	<u>248,624</u>	<u>238,727</u>
Total operating lease liabilities	<u>\$ 317,204</u>	<u>\$ 303,443</u>
Finance Leases:		
Property and equipment, at cost	\$ 10,388	\$ 10,683
Accumulated depreciation	<u>(4,607)</u>	<u>(4,277)</u>
Property and equipment, net of accumulated depreciation	<u>\$ 5,781</u>	<u>\$ 6,406</u>
Current maturities of long-term debt	\$ 2,256	\$ 2,420
Long-term debt	<u>3,057</u>	<u>3,541</u>
Total finance lease liabilities	<u>\$ 5,313</u>	<u>\$ 5,961</u>
Weighted Average Remaining Lease Term in Years:		
Operating leases	7.4	7.5
Finance leases	4.2	4.3
Weighted Average Discount Rate:		
Operating leases	2.6%	2.8%
Finance leases	1.9%	1.9%

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

Supplemental cash flow information related to leases is as follows:

	<u>Three Months Ended</u>	
	<u>March 27,</u> <u>2021</u>	<u>March 28,</u> <u>2020</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	\$ 19,150	\$ 19,146
Operating cash flows for finance leases	23	27
Financing cash flows for finance leases	625	495
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 32,388	\$ 8,065
Finance leases	99	1,222

Maturities of lease liabilities are as follows:

	<u>March 27, 2021</u>	
	<u>Operating</u> <u>Leases</u>	<u>Finance</u> <u>Leases</u>
2021	\$ 57,860	\$ 1,821
2022	64,241	1,545
2023	46,827	643
2024	32,991	329
2025	29,515	294
Thereafter	117,566	883
Total future lease payments	349,000	5,515
Less: imputed interest	(31,796)	(202)
Total	<u>\$ 317,204</u>	<u>\$ 5,313</u>

As of March 27, 2021, we have additional operating leases with total lease payments of \$11.1 million for buildings and vehicles that have not yet commenced. These operating leases will commence subsequent to March 27, 2021, with lease terms of two years to 10 years.

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

Note 7 – 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 three months ended March 27, 2021 and the year ended December 26, 2020 are presented in the following table:

	<u>March 27, 2021</u>	<u>December 26, 2020</u>
Balance, beginning of period	\$ 327,699	\$ 287,258
Decrease in redeemable noncontrolling interests due to redemptions	-	(17,241)
Increase in redeemable noncontrolling interests due to business acquisitions	85,037	28,387
Net income attributable to redeemable noncontrolling interests	7,053	13,363
Dividends declared	(6,237)	(12,631)
Effect of foreign currency translation loss attributable to redeemable noncontrolling interests	(6,173)	(4,279)
Change in fair value of redeemable securities	45,520	32,842
Balance, end of period	<u>\$ 452,899</u>	<u>\$ 327,699</u>

Note 8 – 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:

	<u>March 27, 2021</u>	<u>December 26, 2020</u>
Attributable to Redeemable noncontrolling interests:		
Foreign currency translation adjustment	\$ (30,790)	\$ (24,617)
Attributable to noncontrolling interests:		
Foreign currency translation adjustment	\$ 310	\$ 235
Attributable to Henry Schein, Inc.:		
Foreign currency translation adjustment	\$ (108,948)	\$ (76,565)
Unrealized loss from foreign currency hedging activities	(8,127)	(11,488)
Unrealized investment gain (loss)	(5)	1
Pension adjustment loss	(19,225)	(20,032)
Accumulated other comprehensive loss	<u>\$ (136,305)</u>	<u>\$ (108,084)</u>
Total Accumulated other comprehensive loss	<u>\$ (166,785)</u>	<u>\$ (132,466)</u>

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

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

	Three Months Ended	
	March 27, 2021	March 28, 2020
Net income	\$ 174,928	\$ 133,565
Foreign currency translation loss	(38,481)	(89,312)
Tax effect	-	-
Foreign currency translation loss	(38,481)	(89,312)
Unrealized gain from foreign currency hedging activities	4,695	20,233
Tax effect	(1,334)	(5,090)
Unrealized gain from foreign currency hedging activities	3,361	15,143
Unrealized investment loss	(8)	(11)
Tax effect	2	2
Unrealized investment loss	(6)	(9)
Pension adjustment gain	1,026	1,048
Tax effect	(219)	(324)
Pension adjustment gain	807	724
Comprehensive income	<u>\$ 140,609</u>	<u>\$ 60,111</u>

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 loss during the three months ended March 27, 2021 and three months ended March 28, 2020 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	
	March 27, 2021	March 28, 2020
Comprehensive income attributable to Henry Schein, Inc.	\$ 137,776	\$ 69,986
Comprehensive income attributable to noncontrolling interests	1,953	313
Comprehensive income (loss) attributable to Redeemable noncontrolling interests	880	(10,188)
Comprehensive income	<u>\$ 140,609</u>	<u>\$ 60,111</u>

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

Note 9 – 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. Fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs).

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

- Level 1— Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2— Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3— Inputs that are unobservable for the asset or liability.

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

Investments and notes receivable

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

Debt

The fair value of our debt (including bank credit lines) is classified as Level 3 within the fair value hierarchy as of March 27, 2021 and December 26, 2020 was estimated at \$685.1 million and \$699.0 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 economically hedging our unfunded non-qualified supplemental retirement plan and our deferred compensation plan.

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

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 14-Derivatives and Hedging Activities](#) 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. See [Note 7-Redeemable Noncontrolling Interests](#) for additional information.

The following table presents our assets and liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of March 27, 2021 and December 26, 2020:

	March 27, 2021			
	Level 1	Level 2	Level 3	Total
Assets:				
Derivative contracts	\$ -	\$ 1,856	\$ -	\$ 1,856
Total return swaps	-	1,458	-	1,458
Total assets	<u>\$ -</u>	<u>\$ 3,314</u>	<u>\$ -</u>	<u>\$ 3,314</u>
Liabilities:				
Derivative contracts	\$ -	\$ 5,353	\$ -	\$ 5,353
Total liabilities	<u>\$ -</u>	<u>\$ 5,353</u>	<u>\$ -</u>	<u>\$ 5,353</u>
Redeemable noncontrolling interests	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 452,899</u>	<u>\$ 452,899</u>
December 26, 2020				
	Level 1	Level 2	Level 3	Total
Assets:				
Derivative contracts	\$ -	\$ 1,868	\$ -	\$ 1,868
Total return swaps	-	1,565	-	1,565
Total assets	<u>\$ -</u>	<u>\$ 3,433</u>	<u>\$ -</u>	<u>\$ 3,433</u>
Liabilities:				
Derivative contracts	\$ -	\$ 11,765	\$ -	\$ 11,765
Total liabilities	<u>\$ -</u>	<u>\$ 11,765</u>	<u>\$ -</u>	<u>\$ 11,765</u>
Redeemable noncontrolling interests	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 327,699</u>	<u>\$ 327,699</u>

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

Note 10 – Business Acquisitions*Acquisitions*

We completed acquisitions during the three months ended March 27, 2021 which were immaterial to our financial statements. The acquisitions that we completed included companies within our Health care distribution and Technology and value-added services segments. Our initial ownership interest acquired ranges between approximately 65% to 100%. Acquisitions within our Health care distribution segment include companies that specialize in distribution of dental products, a provider of home medical supplies, and product kitting and sterile packaging. Within our Technology and value-added services segment, we acquired companies that focus on dental marketing and website solutions, practice transition services, and business analytics and intelligence software.

The following table summarizes the estimated fair value, as of the date of acquisition, of consideration paid and net assets acquired for acquisitions during the three months ended March 27, 2021. While we use our best estimates and assumptions to accurately value those assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill within our consolidated balance sheets.

Acquisition consideration:

Cash	\$ 213.8
Redeemable noncontrolling interests	<u>75.2</u>
Total consideration	289.0

Identifiable assets acquired and liabilities assumed:

Current assets	86.9
Intangible assets	151.4
Other noncurrent assets	19.0
Current liabilities	(31.8)
Deferred income taxes	(9.4)
Other noncurrent liabilities	<u>(22.4)</u>
Total identifiable net assets	193.7
Goodwill	<u>95.3</u>
Total net assets acquired	\$ <u><u>289.0</u></u>

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

Some prior owners of acquired subsidiaries are eligible to receive additional purchase price cash consideration if certain financial targets are met. We have accrued liabilities for the estimated fair value of additional purchase price consideration at the time of the acquisition. Any adjustments to these accrual amounts are recorded in our consolidated statements of income. For the three months ended March 27, 2021 and March 28, 2020, there were no material adjustments recorded in our consolidated statements of income relating to changes in estimated contingent purchase price liabilities.

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

Note 11 – Plans of Restructuring

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. In light of the changes to the business environment brought on by the COVID-19 pandemic, we extended such activities to the end of 2021.

During the three months ended March 27, 2021 and March 28, 2020, we recorded restructuring costs of \$2.9 million and \$4.8 million, respectively. 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.

We are currently unable in good faith to make a determination of an estimate of the amount or range of amounts expected to be incurred in connection with these activities in 2021, both with respect to each major type of cost associated therewith and with respect to the total cost, or an estimate of the amount or range of amounts that will result in future cash expenditures.

The following table shows the net amounts expensed and paid for restructuring costs that were incurred during the three months ended March 27, 2021 and during our 2020 fiscal year and the remaining accrued balance of restructuring costs as of March 27, 2021, which is included in Accrued expenses: Other within our consolidated balance sheets:

	Severance Costs	Facility Closing Costs	Other	Total
Balance, December 28, 2019	\$ 12,911	\$ 826	\$ 73	\$ 13,810
Provision	25,855	5,878	360	32,093
Payments and other adjustments	(26,152)	(6,309)	(329)	(32,790)
Balance, December 26, 2020	\$ 12,614	\$ 395	\$ 104	\$ 13,113
Provision	2,848	(151)	234	2,931
Payments and other adjustments	(8,623)	156	(243)	(8,710)
Balance, March 27, 2021	<u>\$ 6,839</u>	<u>\$ 400</u>	<u>\$ 95</u>	<u>\$ 7,334</u>

The following table shows, by reportable segment, the net amounts expensed and paid for restructuring costs that were incurred during the three months ended March 27, 2021 and during our 2020 fiscal year and the remaining accrued balance of restructuring costs as of March 27, 2021:

	Health Care Distribution	Technology and Value-Added Services	Total
Balance, December 28, 2019	\$ 13,373	\$ 437	\$ 13,810
Provision	30,935	1,158	32,093
Payments and other adjustments	(31,484)	(1,306)	(32,790)
Balance, December 26, 2020	\$ 12,824	\$ 289	\$ 13,113
Provision	2,803	128	2,931
Payments and other adjustments	(8,531)	(179)	(8,710)
Balance, March 27, 2021	<u>\$ 7,096</u>	<u>\$ 238</u>	<u>\$ 7,334</u>

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

Note 12 – 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 and upon exercise of stock options using the treasury stock method in periods in which they have a dilutive effect.

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

	Three Months Ended	
	March 27, 2021	March 28, 2020
Basic	142,298	142,967
Effect of dilutive securities:		
Stock options, restricted stock and restricted stock units	1,100	128
Diluted	<u>143,398</u>	<u>143,095</u>

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

Note 13 – Income Taxes

For the three months ended March 27, 2021 our effective tax rate was 25.1% compared to 22.4% for the prior year period. The difference between our effective tax rate and the federal statutory tax rate for the three months ended March 27, 2021 was primarily due to state and foreign income taxes and interest expense. The difference between our effective tax rate and the federal statutory tax rate for the three months ended March 28, 2020 primarily relates to state and foreign income taxes and interest expense as well as tax charges and credits associated with legal entity reorganizations outside the United States.

The American Rescue Plan Act of 2021 (“ARPA”) was signed into law on March 11, 2021. The ARPA included a corporate income tax provision to further limit the deductibility of compensation under Section 162(m) for tax years starting after December 31, 2026. Section 162(m) generally limits the deductibility of compensation paid to covered employees of publicly held corporations. Covered employees include the CEO, CFO and the three highest paid officers. The ARPA expands the group of covered employees to additionally include five of the highest paid employees.

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 carryover and carryback rules. We have analyzed the income tax provisions of the CARES Act and have accounted for the impact in the three months ended March 28, 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.

The total amount of unrecognized tax benefits, which are included in “Other liabilities” within our consolidated balance sheets, as of March 27, 2021 was approximately \$89.2 million, of which \$73.0 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 years 2012, 2013, 2017 and forward by the U.S Internal Revenue Service (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 and 2014 through 2016. We are currently under audit with the IRS for the years 2012 and 2013 and all fieldwork has been completed. We reached a settlement with the U.S. Competent Authority to resolve certain transfer pricing issues related to 2012 and 2013 in the quarter ended December 28, 2019. 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 do not believe the final resolution will have a material impact to our consolidated financial statements. During the quarter ended September 26, 2020 we finalized negotiations with the Advance Pricing Division and reached an agreement on an appropriate transfer pricing methodology for the years 2014–2025. The objective of this resolution was to mitigate future transfer pricing audit adjustments. In the fourth quarter of 2020, we reached a favorable resolution with the IRS relating to select audit years.

The total amounts of interest and penalties are classified as a component of the provision for income taxes. The amount of tax interest expense was approximately \$0.5 million for the three months ended March 27, 2021, and \$0.3 million for the three months ended March 28, 2020. The total amount of accrued interest is included in “Other liabilities”, and was approximately \$14.6 million as of March 27, 2021 and \$14.0 million as of December 26, 2020. No penalties were accrued for the periods presented.

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

Note 14 – 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 months ended March 27, 2021 and March 28, 2020, we recognized approximately \$1.1 and \$1.2 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 economically 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 March 27, 2021, the notional value of the investments in these plans was \$77.5 million. At March 27, 2021, the financing blended rate for this swap was based on LIBOR of 0.12% plus 0.50%, for a combined rate of 0.62%. For the three months ended March 27, 2021, we have recorded a gain, within the selling, general and administrative line item in our consolidated statement of income, of approximately \$2.7 million, net of transaction costs, related to this undesignated swap. This swap is expected to be renewed on an annual basis after its current expiration date of March 29, 2022, and is expected to result in a neutral impact to our results of operations.

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.

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

Note 15 – Stock-Based Compensation

Our accompanying consolidated statements of income reflect pre-tax share-based compensation expense of \$12.8 million (\$9.6 million after-tax) for the three months ended March 27, 2021 and pre-tax share based compensation credit of \$17.5 million (\$13.6 million after-tax) for the three months ended March 28, 2020. The \$17.5 million credit for share-based compensation during the three months ended March 28, 2020 reflected our reduced estimate in expected achievement of performance targets resulting from the impact of COVID-19.

Our accompanying consolidated statements of cash flows present our stock-based compensation expense (credit) as an adjustment to reconcile net income to net cash provided by 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 three months ended March 27, 2021 and March 28, 2020, 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 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 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 (the “Compensation Committee”). Historically, equity-based awards have been granted solely in the form of restricted stock units (“RSUs”). However, in March 2021, our equity-based awards were granted in the form of RSUs and non-qualified stock options.

Grants of RSUs are stock-based awards granted to recipients with specified vesting provisions. In the case of RSUs, common stock is generally delivered on or following satisfaction of vesting conditions. We issue RSUs 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 RSUs that vest based on our achieving specified performance measurements and the recipient’s continued service over time (primarily three-year cliff vesting). For these RSUs, we recognize the cost as compensation expense on a straight-line basis.

During the three months ended March 27, 2021, as a result of the continuing economic risk and uncertainty resulting from the ongoing COVID-19 pandemic, the Compensation Committee decided to adjust the form of awards granted under our 2021 long-term incentive program for our 2021 fiscal year in a manner that focuses on our long-term value by granting stock options and time-based RSUs rather than performance-based RSUs. Stock options are awards that allow the recipient to purchase shares of our common stock at a fixed price following vesting of the stock options. Stock options are granted at an exercise price equal to our closing stock price on the date of grant. Stock options issued during 2021 vest one-third per year based on the recipient’s continued service, subject to the terms and conditions of the Plans, are fully vested three years from the grant date and have a contractual term of ten years from the grant date, subject to earlier termination of the term upon certain events. Compensation expense for these stock options is recognized using a graded vesting method. We estimate the fair value of stock options using the Black-Scholes valuation model.

In addition to equity-based awards under the 2021 long-term incentive program under the 2020 Stock Incentive Plan, the Compensation Committee granted a Special Pandemic Recognition Award under the 2020 Stock Incentive Plan to recipients of performance-based RSUs under the 2018 long-term incentive program. These awards will vest 50% on the first anniversary of the grant date and 50% on the second anniversary of the grant date and are recorded as compensation expense using a graded vesting method.

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

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

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, changes in income tax rates in certain markets 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.

Total unrecognized compensation cost related to unvested awards as of March 27, 2021 was \$110.0 million, which is expected to be recognized over a weighted-average period of approximately 2.8 years.

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

Expected dividend yield	0.0%
Expected stock price volatility	25.80%
Risk-free interest rate	0.94%
Expected life of options (years)	6.00

We have not declared cash dividends on our stock in the past and we do not anticipate declaring cash dividends in the foreseeable future. The expected stock price volatility is based on implied volatilities from traded options on our stock, historical volatility of our stock, and other factors. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant in conjunction with considering the expected life of options. The 6-year expected life of the options was determined using the simplified method for estimating the expected term as permitted under SAB Topic 14. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by recipients of stock options, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by us.

The following table summarizes stock option activity under the Plans during the three months ended March 27, 2021:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life in Years</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at beginning of period	-	\$ -		
Granted	788	62.71		
Forfeited	-	-		
Outstanding at end of period	<u>788</u>	<u>\$ 62.71</u>	9.9	\$ 4,152

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

The following tables summarize the activity of our unvested RSUs for the three months ended March 27, 2021:

	Time-Based Restricted Stock Units		
	<u>Shares/Units</u>	Weighted Average	
		<u>Grant Date Fair Value Per Share</u>	<u>Intrinsic Value Per Share</u>
Outstanding at beginning of period	1,459	\$ 57.61	
Granted	797	62.75	
Vested	(256)	66.92	
Forfeited	(7)	59.59	
Outstanding at end of period	<u>1,993</u>	<u>\$ 58.46</u>	\$ 67.98

	Performance-Based Restricted Stock Units		
	<u>Shares/Units</u>	Weighted Average	
		<u>Grant Date Fair Value Per Share</u>	<u>Intrinsic Value Per Share</u>
Outstanding at beginning of period	136	\$ 53.52	
Granted	189	58.35	
Vested	(78)	51.92	
Forfeited	(4)	59.05	
Outstanding at end of period	<u>243</u>	<u>\$ 59.21</u>	\$ 67.98

Note 16 – Supplemental Cash Flow Information

Cash paid for interest and income taxes was:

	Three Months Ended	
	<u>March 27, 2021</u>	<u>March 28, 2020</u>
Interest	\$ 7,763	\$ 9,951
Income taxes	13,425	12,613

During the three months ended March 27, 2021 and March 28, 2020, we had a \$4.7 million and \$20.2 million of non-cash net unrealized gains related to foreign currency hedging activities, respectively.

Note 17 – 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.

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

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 remained stayed. After briefing from the parties and several amici, the case was argued before the Supreme Court on December 8, 2020. On January 25, 2021, the Supreme Court dismissed the writ of certiorari as improvidently granted. That action dissolved the stay the Supreme Court had previously granted. The U.S. District Court for the Eastern District of Texas then set the case for trial, and jury selection was scheduled to begin on June 1, 2021. Patterson and the Danaher Defendants settled with Archer and they have been dismissed from the case with prejudice. Benco has agreed to settle the case with the plaintiff. Henry Schein and the plaintiff have agreed to settle this matter for an amount that is not material to the Company and to dismiss the case with prejudice.

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 alleged 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 filings with the SEC.

In addition to the County of Summit Action, Henry Schein and/or one or more of its affiliated companies have 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. 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. On October 9, 2020, the Circuit Court of the 17th Judicial Circuit in and for Broward County, Florida, Case No. CACE19018882, granted Henry Schein's motion to dismiss the claims brought against it in the action filed by North Broward Hospital District et. al. The Florida court gave plaintiffs until November 24, 2020 to replead their claims against Henry Schein. On January 8, 2021, Henry Schein filed a motion to dismiss the Amended Complaint. By Order entered on March 24, 2021, the Circuit Court of Washington County, Arkansas, Case No. 72-CV20-156, granted Henry Schein's motion to dismiss the claims brought against it in the action filed by Fayetteville Arkansas Hospital Company, LLC, et al. The Arkansas court gave plaintiffs until forty-five (45) days from the date the court enters an order or orders deciding all other motions

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

to dismiss currently pending before the court, to replead their claims against Henry Schein. An action filed by Tucson Medical Center et al. was previously scheduled for trial beginning on June 1, 2021 but the court has vacated that trial date. At this time, the only cases set for trial are the actions 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 November 1, 2021, and DCH Health Care Authority, et al., which is currently scheduled for a liability jury trial on plaintiffs' public nuisance claims on July 18, 2022. Of Henry Schein's 2020 revenue of approximately \$10.1 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 Securities Exchange Act of 1934, as amended, and Securities and Exchange Commission 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 February 5, 2021, Jack Garnsey filed a putative shareholder derivative action on behalf of Covetrus, Inc. in the U.S. District Court for the Eastern District of New York, naming as defendants Benjamin Shaw, Christine T. Komola, Steven Paladino, Betsy Atkins, Deborah G. Ellinger, Sandra L. Helton, Philip A. Laskaway, Mark J. Manoff, Edward M. McNamara, Ravi Sachdev, David E. Shaw, Benjamin Wolin, and Henry Schein, Inc., with Covetrus, Inc. named as a nominal defendant. The complaint alleges that the individual defendants breached their fiduciary duties under state law in connection with the same allegations asserted in the City of Hollywood securities class action described above and further alleges that Henry Schein aided and abetted such breaches. The complaint also asserts claims for contribution under the federal securities laws against Henry Schein and other defendants, also arising out of the allegations in the City of Hollywood lawsuit. The complaint seeks declaratory, injunctive, and monetary relief. We intend to defend ourselves vigorously against this action. On April 8, 2021 the Court entered an order staying the Garnsey action until forty-five (45) days after a decision is issued finally resolving the motions to dismiss in the City of Hollywood Class Action.

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 March 27, 2021, 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

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

expenses, was not material to our financial position, results of operations or cash flows. Our method for determining estimated losses considers currently available facts, presently enacted laws and regulations and other factors, including probable recoveries from third parties.

Note 18 – Related Party Transactions

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”). 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 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”).

In connection with the completion of the Animal Health Spin-off during our 2019 fiscal year, we entered into a transition services agreement with Covetrus under which we 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. Services provided under this transition services agreement ended in December 2020. During the three months ended March 28, 2020, we recorded approximately \$4.4 million of fees for these services. Covetrus also purchased certain products from us pursuant to the transition services agreement, which ended in December 2020. During the three months ended March 28, 2020, net sales to Covetrus were approximately \$21.1 million.

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 months ended March 27, 2021 and March 28, 2020, we recorded \$7.8 million and \$7.8 million, respectively in connection with costs related to this royalty agreement. As of March 27, 2021 and December 26, 2020, Henry Schein One, LLC had a net receivable balance due from Internet Brands of \$1.7 million and \$4.7 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 months ended March 27, 2021 and March 28, 2020, we recorded net sales of \$15.5 million and \$15.4 million, respectively, to such entities. During the three months ended March 27, 2021 and March 28, 2020, we purchased \$3.8 million and \$3.0 million, respectively from such entities. At March 27, 2021 and December 26, 2020, we had in aggregate \$36.7 million and \$36.4 million, due from our equity affiliates, and \$7.8 million and \$8.6 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 the documents we file with the Securities and Exchange Commission (SEC), including our Annual Report on Form 10-K. Forward looking statements include the overall impact of the Novel Coronavirus Disease 2019 (COVID-19) on the Company, its results of operations, liquidity, and financial condition (including any estimates of the impact on these items), the rate and consistency with which dental and other practices resume or maintain normal operations in the United States and internationally, expectations regarding personal protective equipment (“PPE”) and COVID-19 related product sales and inventory levels and whether additional resurgences of the virus will adversely impact the resumption of normal operations, the impact of restructuring programs as well as of any future acquisitions, and more generally current expectations regarding performance in current and future periods. Forward looking statements also include the (i) ability of the Company 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 and (ii) potential for the Company to distribute the COVID-19 vaccines and ancillary supplies.

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

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

Where You Can Find Important Information

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

Recent Developments

COVID-19 Pandemic

In March 2020, the World Health Organization declared COVID-19 a pandemic. The COVID-19 pandemic negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of global financial markets. In response, many countries 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 of 2020. Demand increased in the second half of 2020 and continued into the first quarter of 2021, resulting in growth over the prior year driven by sales of PPE and COVID-19 related products.

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 of 2020, dental and medical practices began to re-open worldwide, and continued to do so during the second half of 2020. During the first quarter of 2021, patient traffic levels returned to levels approaching pre-pandemic levels, although certain regions in the U.S. and internationally are experiencing an increase in COVID-19 cases. There is an ongoing risk that the COVID-19 pandemic may again have a material adverse effect on our business, results of operations and cash flows and may result in a material adverse effect on our financial condition and liquidity. However, the extent of the potential impact cannot be reasonably estimated at this time.

Executive-Level Overview

Henry Schein, Inc. is a solutions company for health care professionals powered by a network of people and technology. We believe we are the world's largest provider of health care products and services primarily to office-based dental and medical practitioners, as well as alternate sites of care. We serve more than one million customers worldwide including dental practitioners 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 more than 20,000 people (of which more than 9,500 are based outside the United States) and have operations or affiliates in 31 countries and territories, 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 around the world to enable us to better serve our customers and increase our operating efficiency. This infrastructure, together with broad product and service offerings at competitive prices, and a strong commitment to customer service, enables us to be a single source of supply for our customers' needs. 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 be impacted by the COVID-19 pandemic, the current economic environment and continued economic and public health uncertainty. Since the onset of the COVID-19 pandemic in early 2020, we have been carefully monitoring its impact on our global operations and have taken appropriate steps

[Table of Contents](#)

to minimize the risk to our employees. We have seen and continue to see changes in demand trends for some of our products and services as rates of infection fluctuate, new strains or mutations of COVID-19 emerge and spread, vaccine uptake increases, governments adapt their approaches to combatting the virus, and local conditions change across geographies. As a result, we expect to see continued volatility through at least the duration of the pandemic.

Industry Consolidation

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

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

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

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

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

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

As the health care industry continues to change, we continually evaluate possible candidates for 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 had taken a range of actions to preserve cash, including the temporary suspension of significant acquisition activity. During the second half of 2020, as global conditions improved, we resumed our acquisition strategy.

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 \$3.8 trillion in 2019, 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, importation, exportation, marketing and sale of, and third party payment for, pharmaceuticals and medical devices, and in this regard, we are subject to extensive local, state, federal and foreign governmental laws and regulations, including as applicable to our wholesale distribution of pharmaceuticals and medical devices, and as part of our specialty home medical supply business that distributes and sells medical equipment and supplies directly to patients. The federal government and state governments have also increased enforcement activity in the health care sector, particularly in areas of fraud and abuse, anti-bribery and corruption, controlled substances handling, medical device regulations, and data privacy and security standards.

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

Our businesses are also generally subject to numerous other laws and regulations that could impact our financial performance, including securities, antitrust, consumer protection, anti-bribery and anti-kickback, customer interaction transparency, data privacy, data security, government contracting, price gouging, and other laws and regulations.

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 our Annual Report on Form 10-K for the fiscal year ended December 26, 2020, filed on February 17, 2021.

Results of Operations

The following table summarizes the significant components of our operating results and cash flows for the three months ended March 27, 2021 and March 28, 2020 (in thousands):

	Three Months Ended	
	March 27, 2021	March 28, 2020
Operating results:		
Net sales	\$ 2,924,961	\$ 2,428,871
Cost of sales	2,034,110	1,682,857
Gross profit	890,851	746,014
Operating expenses:		
Selling, general and administrative	657,992	567,362
Restructuring costs	2,931	4,787
Operating income	<u>\$ 229,928</u>	<u>\$ 173,865</u>
Other expense, net	\$ (4,193)	\$ (4,842)
Net income from continuing operations	174,928	133,847
Loss from discontinued operations	-	(282)
Net income attributable to Henry Schein, Inc.	165,997	130,261
	Three Months Ended	
	March 27, 2021	March 28, 2020
Cash flows:		
Net cash provided by operating activities from continuing operations	\$ 63,331	\$ 78,757
Net cash used in investing activities from continuing operations	(223,244)	(53,605)
Net cash provided by (used in) financing activities from continuing operations	(119,444)	491,608

Plans of Restructuring

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. In light of the changes to the business environment brought on by the COVID-19 pandemic, we extended such activities to the end of 2021.

During the three months ended March 27, 2021 and March 28, 2020, we recorded restructuring costs of \$2.9 million and \$4.8 million, respectively. 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.

We are currently unable in good faith to make a determination of an estimate of the amount or range of amounts expected to be incurred in connection with these activities in 2021, both with respect to each major type of cost associated therewith and with respect to the total cost, or an estimate of the amount or range of amounts that will result in future cash expenditures.

Three Months Ended March 27, 2021 Compared to Three Months Ended March 28, 2020

Net Sales

Net sales for the three months ended March 27, 2021 and March 28, 2020 were as follows (in thousands):

	March 27, 2021	% of Total	March 28, 2020	% of Total	Increase / (Decrease)	
					\$	%
Health care distribution ⁽¹⁾						
Dental	\$ 1,788,928	61.2%	\$ 1,475,076	60.7%	\$ 313,852	21.3%
Medical	993,037	33.9	800,688	33.0	192,349	24.0
Total health care distribution	2,781,965	95.1	2,275,764	93.7	506,201	22.2
Technology and value-added services ⁽²⁾	142,996	4.9	131,965	5.4	11,031	8.4
Total excluding Corporate TSA revenue	2,924,961	100.0	2,407,729	99.1	517,232	21.5
Corporate TSA revenue ⁽³⁾	-	-	21,142	0.9	(21,142)	-
Total	<u>\$ 2,924,961</u>	<u>100.0%</u>	<u>\$ 2,428,871</u>	<u>100.0%</u>	<u>\$ 496,090</u>	<u>20.4</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, personal protective equipment 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 ended in December 2020. See [Note-18 Related Party Transactions](#) for further information.

The 20.4% increase in net sales for the three months ended March 27, 2021 includes an increase of 18.2% in local currency revenue (14.9% increase in internally generated revenue and 3.3% growth from acquisitions) and an increase of 2.2% related to foreign currency exchange. During December 2020, our previous transition services agreement (TSA) with Covetrus, in connection with the completion of the Animal-Health Spin-off, concluded. Accordingly, we recorded no Corporate TSA revenues for the three months ended March 27, 2021. Sales for the three months ended March 27, 2021 benefited from sales of PPE and COVID-19 related products of approximately \$457.5 million, an increase of approximately 189.5% versus the prior year.

The 21.3% increase in dental net sales for the three months ended March 27, 2021 includes an increase of 17.9% in local currency revenue (13.7% increase in internally generated revenue and 4.2% growth from acquisitions) and an increase of 3.4% related to foreign currency exchange. The 17.9% increase in local currency sales was attributable to an increase in dental consumable merchandise sales of 18.3% (13.2% increase in internally generated revenue and 5.1% growth from acquisitions) and an increase in dental equipment sales and service revenues of 16.1%, (15.5% increase in internally generated revenue and 0.6% growth from acquisitions). The COVID-19 pandemic had an adverse impact on prior year revenues when dental offices began closing or seeing a limited number of patients beginning in mid-March of 2020. During the first quarter of 2021, patient traffic levels returned to levels approaching pre-pandemic levels, thus contributing to growth in worldwide dental revenues. Additionally, global dental sales for the three months ended March 27, 2021 benefited from sales of PPE and COVID-19 related products of approximately \$169.3 million, an increase of approximately 72.4% versus the prior year. Excluding PPE and COVID-19 related products, the increase in internally generated local currency dental sales was 11.9%.

The 24.0% increase in medical net sales for the three months ended March 27, 2021 includes an increase of 23.7% in local currency revenue (22.1% increase in internally generated revenue and 1.6% growth from acquisitions) and an increase of 0.3% related to foreign currency exchange. Economic conditions relating to the COVID-19 pandemic had less of an impact on the performance of our medical group in the prior year in part due to continued strong sales of PPE, such as masks, gowns and face shields, and other COVID-19 related products. Globally, our medical business continued to benefit from sales of such PPE and other COVID-19 related products for the three months ended March 27, 2021, recording net sales of \$288.2 million, an increase of approximately 381.3% compared to the prior year. Excluding sales of PPE and other COVID-19 related products, medical internal sales in local currencies was down 6.8%, in part due to a mild influenza season that impacted diagnostic and consumable merchandise sales, as well as from lower pharmaceutical sales.

The 8.4% increase in technology and value-added services net sales for the three months ended March 27, 2021 includes an increase of 7.0% local currency revenue (3.6% increase in internally generated revenue and 3.4% growth from acquisitions) and an increase of 1.4% related to foreign currency exchange. Sales growth was driven by our practice management business, as well as strong financial services revenue, which benefited from dental equipment sales growth. During the quarter ended March 27, 2021, the trend for transactional software revenues improved compared to the prior year, as more patients visited dental practices worldwide.

Gross Profit

Gross profit and gross margin percentages by segment and in total for the three months ended March 27, 2021 and March 28, 2020 were as follows (in thousands):

	March 27,	Gross	March 28,	Gross	Increase / (Decrease)	
	2021	Margin %	2020	Margin %	\$	%
Health care distribution	\$ 789,984	28.4%	\$ 653,316	28.7%	\$ 136,668	20.9%
Technology and value-added services	100,867	70.5	92,085	69.8	8,782	9.5
Total excluding Corporate TSA revenues	890,851	30.5	745,401	31.0	145,450	19.5
Corporate TSA revenues	-	-	613	2.9	(613)	-
Total	\$ 890,851	30.5	\$ 746,014	30.7	\$ 144,837	19.4

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.

During December 2020, our previous transition services agreement with Covetrus, in connection with the completion of the Animal-Health Spin-off, concluded. Under this agreement, Covetrus had agreed to purchase certain products from us at a mark-up that ranged from 3% to 6% of our product cost to cover handling costs.

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 pharmaceutical products are generally at lower gross profit margins than other products. Conversely, 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 increased \$136.7 million, or 20.9%, for the three months ended March 27, 2021 compared to the prior year period, due primarily to the increase in net sales discussed above. Health care distribution gross profit margin decreased to 28.4% for the three months ended March 27, 2021 from 28.7% for the comparable prior year period due to adjustments recorded for PPE inventory and COVID-19 related products, as well as influenza diagnostic kits, caused by volatility of pricing and demand experienced during the quarter. Such conditions may recur and adversely impact gross profit margins in future periods, although we do not expect further material inventory adjustments in 2021. The overall increase in our health care distribution gross profit is attributable to an increase of \$120.5 million from internally generated revenue and \$27.2 million increase in gross profit from acquisitions, partially offset by an \$11.0 million decline in gross profit due to the decrease in the gross margin rates.

[Table of Contents](#)

Technology and value-added services gross profit increased \$8.8 million, or 9.5%, for the three months ended March 27, 2021 compared to the prior year period. The overall increase in our Technology and value-added services gross profit is attributable to a \$4.5 million increase in internally generated revenue, \$4.2 million additional gross profit from acquisitions, and an increase of \$0.1 million from gross margin rates. Technology and value-added services gross profit margin increased to 70.5% for the three months ended March 27, 2021 from 69.8% for the comparable prior year period primarily due to an increase 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 March 27, 2021 and March 28, 2020 were as follows (in thousands):

	March 27, 2021	% of Respective Net Sales	March 28, 2020	% of Respective Net Sales	Increase	
					\$	%
Health care distribution	\$ 592,052	21.3%	\$ 505,762	22.2%	\$ 86,290	17.1%
Technology and value-added services	68,871	48.2	66,387	50.3	2,484	3.7
Total	<u>\$ 660,923</u>	22.6	<u>\$ 572,149</u>	23.6	<u>\$ 88,774</u>	15.5

Selling, general and administrative expenses (including restructuring costs in the three months ended March 27, 2021 and March 28, 2020) increased \$88.8 million, or 15.5%, for the three months ended March 27, 2021 from the comparable prior year period. The \$86.3 million increase in selling, general and administrative expenses within our health care distribution segment for the three months ended March 27, 2021 as compared to the prior year period was attributable to an increase of \$64.8 million of operating costs (including \$12.8 million of settlement and litigation costs), an increase of \$23.3 million of additional costs from acquired companies, partially offset by a decrease of \$1.8 million in restructuring costs. The \$2.5 million increase in selling, general and administrative expenses within our technology and value-added services segment for the three months ended March 27, 2021 as compared to the prior year period was attributable to an increase of \$3.5 million of additional costs from acquired companies, partially offset by a decrease of \$1.0 million of operating costs. As a percentage of net sales, selling, general and administrative expenses decreased to 22.6% from 23.6% for the comparable prior year period.

As a component of total selling, general and administrative expenses, selling expenses increased \$12.9 million, or 3.5% to \$384.7 million, for the three months ended March 27, 2021 from the comparable prior year period. As a percentage of net sales, selling expenses decreased to 13.2% from 15.3% for the comparable prior year period.

As a component of total selling, general and administrative expenses, general and administrative expenses increased \$75.9 million, or 37.9% to \$276.2 million, for the three months ended March 27, 2021 from the comparable prior year period, primarily due to an increase in payroll and payroll related costs. As a percentage of net sales, general and administrative expenses increased to 9.4% from 8.2% for the comparable prior year period.

Our selling, general and administrative expenses for the three months ended March 28, 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 prior-year quarter we recorded incremental bad debt reserves of approximately \$10 million for our global dental business. We also recognized a net credit of approximately \$17.5 million in stock-based compensation expense during the prior-year quarter as we had estimated that no performance shares granted in 2018, 2019 or 2020 would ultimately vest. In contrast, for the three months ended March 27, 2021, we recorded \$12.8 million in stock-based compensation expense. Additionally, in the prior-year quarter we recorded total impairment charges of approximately \$6.1 million during the quarter related to prepaid royalty expenses and a customer relationship intangible asset. We recorded no such impairment charges in the three months ended March 27, 2021.

Other Expense, Net

Other expense, net, for the three months ended March 27, 2021 and March 28, 2020 was as follows (in thousands):

	March 27,	March 28,	Variance	
	2021	2020	\$	%
Interest income	\$ 1,983	\$ 3,190	\$ (1,207)	(37.8)%
Interest expense	(6,485)	(7,812)	1,327	17.0
Other, net	309	(220)	529	240.5
Other expense, net	<u>\$ (4,193)</u>	<u>\$ (4,842)</u>	<u>\$ 649</u>	13.4

Interest income decreased \$1.2 million primarily due to lower investment and late fee income. Interest expense decreased \$1.3 million primarily due to decreased borrowings under our bank credit lines as well as lower interest rates.

Income Taxes

For the three months ended March 27, 2021, our effective tax rate was 25.1% compared to 22.4% for the prior year period. The difference between our effective tax rate and the federal statutory tax rate for the three months ended March 27, 2021, was primarily due to state and foreign income taxes and interest expense. The difference between our effective tax rate and the federal statutory tax rate for the three months ended March 28, 2020 primarily relates to state and foreign income taxes and interest expense as well as tax charges and credits associated with legal entity reorganizations outside the United States.

Liquidity and Capital Resources

Our principal capital requirements have included funding of acquisitions, purchases of additional noncontrolling interests, repayments of debt principal, the funding of working capital needs, purchases of fixed assets and repurchases of common stock (which had been temporarily suspended, but were resumed during the three months ended March 27, 2021). Working capital requirements generally result from increased sales, special inventory forward buy-in opportunities and payment terms for receivables and payables. Historically, sales have tended to be stronger during the second half of the year and special inventory forward buy-in opportunities have been most prevalent just before the end of the year, and have caused our working capital requirements to be higher from the end of the third quarter to the end of the first quarter of the following year.

The pandemic and the governmental responses to it had a material adverse effect on our cash flows in the second quarter of 2020. In the latter half of the second quarter of 2020 and continuing through year-end, dental and medical practices began to re-open worldwide. During the first quarter of 2021, patient traffic levels returned to levels approaching pre-pandemic levels, although certain regions in the U.S. and internationally are experiencing an increase in COVID-19 cases. There is an ongoing risk that the COVID-19 pandemic may again have a material adverse effect on our business, results of operations and cash flows and may result in a material adverse effect on our financial condition and liquidity. However, the extent of the potential impact cannot be reasonably estimated at this time.

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.

[Table of Contents](#)

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.

Net cash from continuing operations provided by operating activities was \$63.3 million for the three months ended March 27, 2021, compared to net cash from continuing operations provided by operating activities of \$78.8 million for the comparable prior year period. The net change of \$15.4 million was primarily attributable to increased working capital requirements, specifically an increase in inventories due to stocking of PPE and other COVID-19 related products, partially offset by decreased accounts receivable due to lower days sales outstanding. The effect on operating cash flows from the increased working capital requirements was partially offset by higher net income.

Net cash from continuing operations used in investing activities was \$223.2 million for the three months ended March 27, 2021, compared to \$53.6 million for the comparable prior year period. The net change of \$169.6 million was attributable to increased payments for equity investments and business acquisitions.

Net cash from continuing operations used in financing activities was \$119.4 million for the three months ended March 27, 2021, compared to net cash provided by financing activities of \$491.6 million for the comparable prior year period. The net change of \$611.1 million was primarily due to decreased net proceeds from bank borrowings.

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

	March 27, 2021	December 26, 2020
Cash and cash equivalents	\$ 144,538	\$ 421,185
Working capital ⁽¹⁾	1,447,857	1,508,313
Debt:		
Bank credit lines	\$ 67,415	\$ 73,366
Current maturities of long-term debt	111,176	109,836
Long-term debt	506,461	515,773
Total debt	<u>\$ 685,052</u>	<u>\$ 698,975</u>
Leases:		
Current operating lease liabilities	\$ 68,580	\$ 64,716
Non-current operating lease liabilities	248,624	238,727

(1) At March 27, 2021 and December 26, 2020, there were no trade accounts receivable that were restricted to settle obligations of this VIE, nor were there liabilities of the VIE where the creditors have recourse to us.

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

Accounts receivable days sales outstanding and inventory turns

Our accounts receivable days sales outstanding from operations decreased to 42.8 days as of March 27, 2021 from 45.9 days as of March 28, 2020. During the three months ended March 27, 2021, we wrote off approximately \$3.3 million of fully reserved accounts receivable against our trade receivable reserve. Our inventory turns from operations increased to 5.2 as of March 27, 2021 from 4.9 as of March 28, 2020. Our working capital accounts may be impacted by current and future economic conditions.

Bank Credit Lines

Bank credit lines consisted of the following:

	March 27, 2021	December 26, 2020
Revolving credit agreement	\$ -	\$ -
Other short-term bank credit lines	67,415	73,366
Total	<u>\$ 67,415</u>	<u>\$ 73,366</u>

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 most LIBOR rates to be discontinued immediately after December 31, 2021, while the remaining LIBOR rates will be discontinued immediately after June 30, 2023, 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 March 27, 2021, and December 26, 2020, we had no borrowings on this revolving credit facility. As of March 27, 2021, and December 26, 2020, there were \$9.3 million and \$9.5 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 March 4, 2021 we repaid the outstanding obligations and terminated the lender commitments under our \$700 million 364-day credit agreement which was entered into on April 17, 2020. This facility was originally scheduled to mature on April 16, 2021.

Other Short-Term Credit Lines

As of March 27, 2021 and December 26, 2020, we had various other short-term bank credit lines available, of which \$67.4 million and \$73.4 million, respectively, were outstanding. At March 27, 2021 and December 26, 2020, borrowings under all of these credit lines had a weighted average interest rate of 4.52% and 4.14%, respectively.

[Table of Contents](#)

Long-term debt

Long-term debt consisted of the following:

	March 27, 2021	December 26, 2020
Private placement facilities	\$ 606,355	\$ 613,498
Note payable	-	1,554
Various collateralized and uncollateralized loans payable with interest, in varying installments through 2023 at interest rates ranging from 2.45% to 4.27% at March 27, 2021 and ranging from 2.62% to 4.27% at December 26, 2020	5,969	4,596
Finance lease obligations (see Note 7)	5,313	5,961
Total	617,637	625,609
Less current maturities	(111,176)	(109,836)
Total long-term debt	<u>\$ 506,461</u>	<u>\$ 515,773</u>

Private Placement Facilities

Our private placement facilities, with three insurance companies, have a total facility amount of \$1 billion, and are available on an uncommitted basis at fixed rate economic terms to be agreed upon at the time of issuance, from time to time through June 23, 2023. The facilities allow us to issue senior promissory notes to the lenders at a fixed rate based on an agreed upon spread over applicable treasury notes at the time of issuance. The term of each possible issuance will be selected by us and can range from five to 15 years (with an average life no longer than 12 years). The proceeds of any issuances under the facilities will be used for general corporate purposes, including working capital and capital expenditures, to refinance existing indebtedness and/or to fund potential acquisitions. The agreements provide, among other things, that we maintain certain maximum leverage ratios, and contain restrictions relating to subsidiary indebtedness, liens, affiliate transactions, disposal of assets and certain changes in ownership. These facilities contain make-whole provisions in the event that we pay off the facilities prior to the applicable due dates.

On March 5, 2021, we amended the private placement facilities to, among other things, (a) modify the financial covenant from being based on a net leverage ratio to a total leverage ratio and (b) restore the maximum maintenance total leverage ratio to 3.25x and remove the 1.00% interest rate increase triggered if the net leverage ratio were to exceed 3.0x.

The components of our private placement facility borrowings as of March 27, 2021 are presented in the following table (in thousands):

<u>Date of Borrowing</u>	<u>Amount of Borrowing Outstanding</u>	<u>Borrowing Rate</u>	<u>Due Date</u>
January 20, 2012 ⁽¹⁾	\$ 7,143	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
September 2, 2020	100,000	2.35	September 2, 2030
Less: Deferred debt issuance costs	(788)		
	<u>\$ 606,355</u>		

(1) 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 and was amended to adjust certain covenant levels for 2020. As of March 27, 2021 and December 26, 2020, there were no borrowings outstanding under this securitization facility. At March 27, 2021, the interest rate on borrowings under this facility was based on the asset-backed commercial paper rate of 0.18% plus 0.95%, for a combined rate of 1.13%. At December 26, 2020, the interest rate on borrowings under this facility was based on the asset-backed commercial paper rate of 0.22% plus 0.95%, for a combined rate of 1.17%.

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.

Leases

We have operating and finance leases for corporate offices, office space, distribution and other facilities, vehicles, and certain equipment. Our leases have remaining terms of less than one year to approximately 15 years, some of which may include options to extend the leases for up to 10 years. As of March 27, 2021, our right-of-use assets related to operating leases were \$301.8 million and our current and non-current operating lease liabilities were \$68.6 million and \$248.6 million, respectively.

Stock Repurchases

On March 8, 2021, we announced the reinstatement of our share repurchase program.

From March 3, 2003 through March 27, 2021, we repurchased \$3.7 billion, or 76,888,531 shares, under our common stock repurchase programs, with \$112.6 million available as of March 27, 2021 for future common stock share repurchases.

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 three months ended March 27, 2021 and the year ended December 26, 2020 are presented in the following table:

	March 27, 2021	December 26, 2020
Balance, beginning of period	\$ 327,699	\$ 287,258
Decrease in redeemable noncontrolling interests due to redemptions	-	(17,241)
Increase in redeemable noncontrolling interests due to business acquisitions	85,037	28,387
Net income attributable to redeemable noncontrolling interests	7,053	13,363
Dividends declared	(6,237)	(12,631)
Effect of foreign currency translation loss attributable to redeemable noncontrolling interests	(6,173)	(4,279)
Change in fair value of redeemable securities	45,520	32,842
Balance, end of period	<u>\$ 452,899</u>	<u>\$ 327,699</u>

[Table of Contents](#)

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 three months ended March 27, 2021 and March 28, 2020, 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 26, 2020, except accounting policies adopted as of December 27, 2020, which are discussed in [Note 2-Critical Accounting Policies, Accounting Pronouncements Adopted and Recently Issued Accounting Standards](#) of the Notes to the Consolidated Financial Statements included under Item 1.

Our financial results for the three months ended March 27, 2021 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. 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 would ultimately vest. In contrast, for the three months ended March 27, 2021, we recorded \$12.8 million in stock-based compensation expense. 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 March 27, 2021. Although our selling, general and administrative expenses for the three months ended March 27, 2021 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, see [Note 2-Critical Accounting Policies, Accounting Pronouncements Adopted and Recently Issued Accounting Standards](#) of the Notes to the 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 26, 2020.

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 March 27, 2021, 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 acquisitions and continued acquisition integrations 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 March 27, 2021, we completed the acquisition of dental and medical businesses in North America and Europe with approximate aggregate annual revenues of approximately \$354 million. In addition, post-acquisition integration related activities continued for our North American medical and global dental businesses acquired during prior quarters, representing aggregate annual revenues of approximately \$299 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.

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

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 we do not believe that these changes have materially affected, or are reasonably likely to materially affect, the effectiveness of our internal control over financial reporting.

Limitations of the Effectiveness of Internal Control

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

PART II. OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

For a discussion of Legal Proceedings, see [Note 17–Legal Proceedings](#) of the Notes to the Consolidated Financial Statements included under Item 1.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in Part 1, Item 1A, of our Annual Report on Form 10-K for the year ended December 26, 2020.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS*Purchases of equity securities by the issuer*

Our share repurchase program announced on March 3, 2003, originally allowed us to repurchase up to two million shares pre-stock splits (eight million shares post-stock splits) of our common stock, which represented approximately 2.3% of the shares outstanding at the commencement of the program. Subsequent additional increases totaling \$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.

On March 8, 2021, we announced the reinstatement of our share repurchase program.

As of March 27, 2021, we had repurchased approximately \$3.7 billion of common stock (76,888,531 shares) under these initiatives, with \$112.6 million available for future common stock share repurchases.

The following table summarizes repurchases of our common stock under our stock repurchase program during the fiscal quarter ended March 27, 2021.

Fiscal Month	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Our Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under Our Program (2)
12/27/20 through 1/30/2021	-	\$ -	-	3,055,600
1/31/21 through 2/27/2021	-	-	-	3,253,214
2/28/21 through 3/27/2021	<u>1,325,242</u>	66.90	<u>1,325,242</u>	1,655,664
	<u><u>1,325,242</u></u>		<u><u>1,325,242</u></u>	

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

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

ITEM 6. EXHIBITS

4.1	Second Amendment to Second Amended and Restated Multicurrency Private Shelf Agreement, dated as of March 5, 2021, 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 March 8, 2021.)
4.2	Second Amendment to Second Amended and Restated Master Note Facility, dated as of March 5, 2021, 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 March 8, 2021.)
4.3	Second Amendment to Second Amended and Restated Multicurrency Master Note Purchase Agreement, dated as of March 5, 2021, 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 March 8, 2021.)
10.1	Form of 2021 Stock Option Agreement pursuant to the Henry Schein, Inc. 2020 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 March 8, 2021.)**
10.2	Form of 2021 Special Pandemic Recognition Award Restricted Stock Unit Agreement for time-based restricted stock unit awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective as of May 14, 2013).**+
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.+
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document+
101.SCH	Inline XBRL Taxonomy Extension Schema Document+
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document+
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document+
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document+
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document+
104	The cover page of Henry Schein, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 27, 2021, 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
Steven Paladino
Executive Vice President and
Chief Financial Officer
(Authorized Signatory and Principal Financial
and Accounting Officer)

Dated: May 4, 2021

**FORM OF
2021 SPECIAL PANDEMIC RECOGNITION AWARD
RESTRICTED STOCK UNIT AGREEMENT
PURSUANT TO THE
HENRY SCHEIN, INC. 2020 STOCK INCENTIVE PLAN
(AS AMENDED AND RESTATED EFFECTIVE AS OF MAY 21, 2020)**

THIS AGREEMENT (the “Agreement”) is made as of [Grant Date] (the “Grant Date”), by and between Henry Schein, Inc. (the “Company”) and [Participant Name] (the “Participant”). Additional country-specific terms and conditions that govern the grant made hereunder are attached hereto on Annex 1, which terms and conditions are incorporated by reference herein and made a part of the Agreement.

W I T N E S S E T H:

WHEREAS, the Company has adopted the Henry Schein, Inc. 2020 Stock Incentive Plan (as amended and restated effective as of May 21, 2020), as amended from time to time (the “Plan”) (a copy of which is on file with the Company’s Corporate Human Resources Department and is available for Participant to review upon request at reasonable intervals as determined by the Company), which is administered by a Committee appointed by the Company’s Board of Directors (the “Committee”);

WHEREAS, pursuant to Section 9(d) of the Plan, the Committee may grant Restricted Stock Units to Key Employees under the Plan;

WHEREAS, the shares of the Company’s common stock are traded on the Nasdaq Stock Market under the symbol “HSIC”; and

WHEREAS, the Participant is a Key Employee of the Company or a Subsidiary.

NOW, THEREFORE, for and in consideration of the mutual promises herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Grant of Restricted Stock Units.

Subject to the restrictions and other conditions set forth herein, in the Plan and Annex 1, the Committee has authorized this grant of [Shares Granted] Restricted Stock Units to the Participant on the Grant Date.

2. Vesting and Payment.

(a) Except as set forth in Sections 2(c) and 2(d), fifty percent (50%) of the Restricted Stock Units shall vest on the first anniversary of the Grant Date, and fifty percent (50%) of the Restricted Stock Units shall vest on the second anniversary of the Grant Date (each, a “Scheduled Payment Date”); in each case, provided that the Participant has not had a Termination of Employment at any time prior to the applicable Scheduled Payment Date.

(b) Except as set forth in Section 2(c), there shall be no proportionate or partial vesting in the periods prior to the vesting date and all vesting shall occur only on the vesting date; provided that no Termination of Employment has occurred prior to such date.

(c) The Restricted Stock Units shall vest on a pro-rated basis upon the Participant’s Retirement, unless otherwise provided expressly in a written agreement between the Participant and the Company (or a Subsidiary). For purposes of this Section 2(c), the Participant shall qualify for “Retirement” if (i) the Participant’s age (minimum 55) plus years of service with the Company and its Subsidiaries equal or exceed 70, (ii) the Participant has provided written notice of the Participant’s retirement to the Company at least 30 days prior to the date of such retirement, and (iii) no Termination of Employment has occurred prior to the date of such retirement. For purposes of determining the age and service requirement under Section 2(c)(i), the Participant’s age and years of service shall be determined by the Participant’s most recent birthday and employment anniversary, respectively. For purposes of this Section 2(c), vesting on a pro-rated basis shall be calculated as the difference between (x) the product of (A) the number of Restricted Stock Units set forth under Section 1 and (B) a fraction, the numerator of which is the number of days from the Grant Date to the date of the Participant’s Retirement and the denominator of which is the number of days from the Grant Date to the second anniversary of the Grant Date, minus (y) the number of Restricted Stock Units that have previously vested as of the date of the Participant’s Retirement (if any).

(d) The Restricted Stock Units shall become fully vested on the earliest of (i) a Termination of Employment by the Company (or a Subsidiary) without Cause occurring within the 2-year period following a Change of Control, (ii) the Participant’s Disability and (iii) the Participant’s death; provided that no Termination of Employment has occurred prior to any such event, unless otherwise provided expressly in a written agreement between the Participant and the Company (or a Subsidiary). For purposes of this Agreement, “Cause” shall have the meaning set forth in Section 7(b) of the Plan, but shall also include any breach by Participant of any agreement with the Company or any of its Subsidiaries. For purposes of this Agreement, a “Change of Control” shall mean a Change of Control as defined in the Plan. For purposes of this Agreement, “Disability” shall mean the approval of, and receiving benefits for, long term disability by the disability insurance carrier under the Company’s (or if applicable, Subsidiary’s) long term disability plan.

(e) The Participant shall be entitled to receive one share of Common Stock with respect to one vested Restricted Stock Unit. The Participant shall be paid one share of Common Stock with respect to each vested Restricted Stock Unit within thirty (30) days of the Scheduled Payment Date; except that, in the event of (i) Retirement, (ii) a Termination of Employment by the Company (or a Subsidiary) without Cause occurring within the 2-year period following a Change of Control, (iii) death or (iv) Disability, the Participant shall be paid within thirty (30) days of such Retirement, Termination of Employment, death or Disability, subject to Section 18 set forth in Annex 1 to the extent applicable, including with respect to a Participant who qualifies for Retirement at any time following the Grant Date.

3. Forfeiture and Recoupment.

(a) Subject to Section 2 above, all unvested Restricted Stock Units will be forfeited on the Participant’s Termination of Employment.

(b) Notwithstanding anything herein or in the Plan to the contrary, the grant of Restricted Stock Units (including any dividends credited thereupon) provided for under this Agreement is conditioned on the Participant not engaging in any Competitive Activity (as defined below) from the date that is twelve (12) months prior to the applicable settlement date set forth in Section 2(a) or Section 2(e) above, as applicable (such applicable settlement date, the “Payment Date”) through the first anniversary of such Payment Date. If, on or after the date that is twelve (12) months prior to the Payment Date but prior to the Payment Date, the Participant engages in a Competitive Activity, the Committee shall have the right, in its sole discretion, to cause the immediate forfeiture of all of the Restricted Stock Units (including any dividends credited thereupon) (whether or not vested) shall be immediately forfeited in their entirety, in which case the Participant shall have no further rights or interests with respect to such Restricted Stock Units (including any such dividends). In the event that the Participant engages in a Competitive Activity on or after the Payment Date but on or prior to the first anniversary of such Payment Date, the

Table of Contents

Company shall have the right to recoup from the Participant, and the Participant shall repay to the Company, within thirty (30) days following demand by the Company, a payment equal to the Fair Market Value of the aggregate shares of Common Stock payable in respect of such Restricted Stock Units (including any dividends credited thereupon) on the Payment Date (including any dividends or other distributions thereafter paid thereon); provided, that, the Company may require the Participant to satisfy such payment obligations hereunder either by forfeiting and returning to the Company such shares of Common Stock, Restricted Stock Units, dividends or any other Shares, or making a cash payment or any combination of these methods, as determined by the Company in its sole discretion. The Company and its Subsidiaries, in their sole discretion, shall have the right to set off (or cause to be set off) any amounts otherwise due to the Participant from the Company (or the applicable Subsidiary) in satisfaction of such repayment obligation, provided that any such amounts are exempt from, or set off in a manner intended to comply with, the requirements of any applicable law (including, without limitation, Section 409A of the Code).

(c) The Participant hereby acknowledges and agrees that the forfeiture and recoupment conditions set forth in this Section 3, in view of the nature of the business in which the Company and its affiliates are engaged, are reasonable in scope and necessary in order to protect the legitimate business interests of the Company and its affiliates, and that any violation thereof would result in irreparable harm to the Company and its affiliates. The Participant also acknowledges and agrees that (i) it is a material inducement and condition to the Company's issuance of the Restricted Stock Units (including any dividends credited thereupon) that such Participant agrees to be bound by such forfeiture and recoupment conditions and, further, that the amounts required to be forfeited or repaid to the Company pursuant to forfeiture and recoupment conditions set forth above are reasonable, and (ii) nothing in this Agreement or the Plan is intended to preclude the Company (or any affiliate thereof) from seeking any remedies available at law, in equity, under contract to the Company or otherwise, and the Company (or any affiliate thereof) shall have the right to seek any such remedy with respect to the Restricted Stock Units, any dividends credited thereupon, or otherwise.

(d) For purposes of this Agreement, the Participant will be deemed to engage in a "Competitive Activity" if, either directly or indirectly, without the express prior written consent of the Company, the Participant (i) takes other employment with, renders services to, or otherwise engages in any business activities with, companies or other entities that are competitors of the Company or any of its affiliates, (ii) solicits or induces, or in any manner attempts to solicit or induce, any person employed by or otherwise providing services to the Company or any of its affiliates, to terminate such person's employment or service relationship, as the case may be, with the Company or any of its affiliates, (iii) diverts, or attempts to divert, any person or entity from doing business with the Company or any of its affiliates or induces, or attempts to induce, any such person or entity from ceasing to be a customer or other business partner of the Company or any of its affiliates, (iv) violates any agreement between the Participant and the Company or any of its affiliates relating to the non-disclosure of proprietary or confidential information of the Company or any of its affiliates, and/or (v) conducts himself or herself in a manner adversely affecting the Company or any of its affiliates, including, without limitation, making false, misleading or negative statements, either orally or in writing, about the Company or any of its affiliates. The determination as to whether the Participant has engaged in a Competitive Activity shall be made by the Committee in its sole discretion.

(e) This Section 3(e) applies solely with respect to Participants who are members of the Company's Executive Management Committee. Notwithstanding anything herein to the contrary, Participant agrees and acknowledges that the Restricted Stock Units awarded under this Agreement and the underlying shares shall be subject to the terms and conditions of the Company's Incentive Compensation Recoupment Policy approved by the Board. Notwithstanding the foregoing, Participant agrees that incentive compensation, as defined under of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and such regulations as are promulgated thereunder from time to time ("Dodd-Frank"), payable to Participant under this Agreement shall be subject to any clawback policy adopted or implemented by the Company in respect of Dodd-Frank, or in respect of any other applicable law or regulation.

4. **Dividend Equivalents.** Cash dividends on Shares shall be credited to a dividend book entry account on behalf of the Participant with respect to each Restricted Stock Unit granted to a Participant, provided that such cash dividends shall not be deemed to be reinvested in Shares and will be held uninvested and without interest and paid in cash if and when the Restricted Stock Unit vests. Stock dividends on Shares shall be credited to a dividend book entry account on behalf of the Participant with respect to each Restricted Stock Unit granted to a Participant, provided that the Participant shall not be entitled to such dividend unless and until the Restricted Stock Unit vests.

5. **Rights as a Stockholder.** The Participant shall have no rights as a stockholder with respect to any shares covered by any Restricted Stock Unit unless and until the Participant has become the holder of record of the shares, and no adjustments shall be made for dividends in cash or other property, distributions or other rights in respect of any such shares, except as otherwise specifically provided for in this Agreement or the Plan.

6. **Withholding.** Participant shall pay, or make arrangements to pay, in a manner satisfactory to the Company, an amount equal to the amount of all applicable foreign, federal, state, provincial and local taxes that the Company is required to withhold at any time. In the absence of such arrangements, the Company or one of its Subsidiaries shall have the right to withhold such taxes from the Participant's normal pay or other amounts payable to the Participant. In addition, any statutorily required withholding obligation may be satisfied, in whole or in part, at the Participant's election, in the form and manner prescribed by the Committee, by delivery of shares of Common Stock (including shares issuable under this Agreement).

7. **Provisions of Plan Control.** This Agreement is subject to all the terms, conditions and provisions of the Plan, including, without limitation, the amendment provisions thereof, and to such rules, regulations and interpretations relating to the Plan as may be adopted by the Committee and as may be in effect from time to time. The Plan is incorporated herein by reference. Capitalized terms in this Agreement that are not otherwise defined shall have the same meaning as set forth in the Plan. Subject to Section 3, if and to the extent that this Agreement conflicts or is inconsistent with the terms, conditions and provisions of the Plan, the Plan shall control, and this Agreement shall be deemed to be modified accordingly. This Agreement contains the entire understanding of the parties with respect to the subject matter hereof and supersedes any prior agreements between the Company and the Participant with respect to the subject matter hereof.

8. **Amendment.** To the extent applicable, the Board or the Committee may at any time and from time to time amend, in whole or in part, any or all of the provisions of this Agreement to comply with any applicable laws and stock exchange rules and regulations (including, without limitation, Section 409A of the Code and the regulations thereunder) and may also amend, suspend or terminate this Agreement subject to the terms of the Plan. Except as otherwise provided in the Plan, no modification or waiver of any of the provisions of this Agreement shall be effective unless in writing and signed by the party against whom it is sought to be enforced.

9. **Notices.** Any notice or communication given hereunder shall be in writing and shall be deemed to have been duly given when delivered in person, or by regular United States mail or similar foreign mail or post, first class and prepaid, to the appropriate party at the address set forth below (or such other address as the party shall from time to time specify):

If to the Company, to:
Henry Schein, Inc.
135 Duryea Road
Melville, New York 11747
Attention: General Counsel

Table of Contents

If to the Participant, to the address on file with the Company.

10. No Obligation to Continue Employment or Services. This Agreement is not an agreement of employment, consultancy or directorship. This Agreement does not guarantee that the Company or its Subsidiaries will employ or retain, or continue to employ or retain, the Participant during the entire, or any portion of the, term of this Agreement, including but not limited to any period during which any Restricted Stock Unit is outstanding, nor does it modify in any respect the Company or its Subsidiaries' right to terminate or modify the Participant's employment, service relationship or compensation.

11. Legend. The Company may at any time place legends referencing any applicable federal, state or foreign securities law restrictions on all certificates representing Shares issued pursuant to this Agreement. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing Shares acquired pursuant to this Agreement in the possession of the Participant in order to carry out the provisions of this Section.

12. Securities Representations. The grant of the Restricted Stock Units and issuance of Shares upon vesting of the Restricted Stock Units shall be subject to, and in compliance with, all applicable requirements of federal, state or foreign securities law. No Shares may be issued hereunder if the issuance of such Shares would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Shares may then be listed. As a condition to the settlement of the Restricted Stock Units, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation.

The Shares are being issued to the Participant and this Agreement is being made by the Company in reliance upon the following express representations and warranties of the Participant. The Participant acknowledges, represents and warrants that:

(a) He or she has been advised that he or she may be an "affiliate" within the meaning of Rule 144 under the Securities Act of 1933, as amended (the "Act") and in this connection the Company is relying in part on his or her representations set forth in this section.

(b) If he or she is deemed an affiliate within the meaning of Rule 144 of the Act, the Shares must be held indefinitely unless an exemption from any applicable resale restrictions is available or the Company files an additional registration statement (or a "re-offer prospectus") with regard to such Shares and the Company is under no obligation to register the Shares (or to file a "re-offer prospectus").

(c) If he or she is deemed an affiliate within the meaning of Rule 144 of the Act, he or she understands that the exemption from registration under Rule 144 will not be available unless (i) a public trading market then exists for the Common Stock of the Company, (ii) adequate information concerning the Company is then available to the public, and (iii) other terms and conditions of Rule 144 or any exemption therefrom are complied with; and that any sale of the Shares may be made only in limited amounts in accordance with such terms and conditions.

13. Transfer of Personal Data. The Participant authorizes, agrees and unambiguously consents to the transmission and processing by the Company (or any Subsidiary) of any personal data information related to Restricted Stock Units awarded under this Agreement, for legitimate business purposes (including, without limitation, the administration of the Plan) out of the Participant's home country and including to countries with less data protection laws than the data protection laws provided by the Participant's home country. This authorization/consent is freely given by the Participant.

14. Delivery Delay. The delivery of any certificate representing the Common Stock may be postponed by the Company for such period as may be required for it to comply with any applicable foreign, federal, state or provincial securities law, or any national securities exchange listing requirements and the Company is not obligated to issue or deliver any securities if, in the opinion of counsel for the Company, the issuance of such Shares shall constitute a violation by the Participant or the Company of any provisions of any applicable foreign, federal, state or provincial law or of any regulations of any governmental authority or any national securities exchange. The Participant acknowledges and understands that the Company intends to meet its delivery obligations in Common Stock with respect to Restricted Stock Units, except as may be prohibited by law or described in this Agreement, the Plan or supplementary materials.

15. Miscellaneous.

This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, legal representatives, successors and assigns.

(a) This Agreement shall be governed and construed in accordance with the laws of New York (regardless of the law that might otherwise govern under applicable New York principles of conflict of laws).

(b) This Agreement may be executed in one or more counterparts, all of which taken together shall constitute one contract.

(c) The failure of any party hereto at any time to require performance by another party of any provision of this Agreement shall not affect the right of such party to require performance of that provision, and any waiver by any party of any breach of any provision of this Agreement shall not be construed as a waiver of any continuing or succeeding breach of such provision, a waiver of the provision itself, or a waiver of any right under this Agreement.

(d) This Agreement and the Plan do not create a joint venture or partnership between the Company and any Subsidiary.

(e) Notwithstanding any provisions in this Agreement, this grant of Restricted Stock Units shall be subject to any additional country-specific terms and conditions set forth in Annex 1 to the Agreement for the Participant's country to the extent applicable. Moreover, if Participant relocates to one of the countries included in Annex 1, the additional country-specific terms and conditions for such country, if any, will apply to Participant to the extent that the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons.

16. ACQUIRED RIGHTS. THE PARTICIPANT ACKNOWLEDGES AND AGREES THAT: (A) THE COMPANY MAY TERMINATE OR AMEND THE PLAN AT ANY TIME; (B) THE AWARD OF RESTRICTED STOCK UNITS MADE UNDER THIS AGREEMENT IS COMPLETELY INDEPENDENT OF ANY OTHER AWARD OR GRANT AND IS MADE AT THE SOLE DISCRETION OF THE COMPANY; AND (C) NO PAST GRANTS OR AWARDS (INCLUDING, WITHOUT LIMITATION, THE RESTRICTED STOCK UNITS AWARDED HEREUNDER) GIVE THE PARTICIPANT ANY RIGHT TO ANY GRANTS OR AWARDS IN THE FUTURE WHATSOEVER.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first set forth above.

HENRY SCHEIN, INC.

Michael S. Ettinger
Senior Vice President, Corporate & Legal Affairs and Chief of Staff

PARTICIPANT

[Electronic Signature]

[Participant Name]

[Acceptance Date]

ANNEX 1

**Additional Country Specific Terms and Conditions
for the Restricted Stock Unit Agreement**

This Annex 1 includes additional terms and conditions that govern the Restricted Stock Units granted to the Participant under the Plan if the Participant works or resides in, or is otherwise subject to the taxes imposed by, one of the countries listed below. This Annex 1 also includes other information that may impact the Participant's participation in the Plan. Certain capitalized terms used but not defined in this Annex 1 have the meanings set forth in the Plan and/or the Agreement. This Annex 1 forms part of the Agreement and should be read in conjunction with the Agreement and the Plan.

The Participant agrees to sign any additional agreements or undertakings that may be necessary or advisable in order to comply with applicable law or facilitate the administration of the Plan. Furthermore, the Participant acknowledges that the applicable law of the country in which the Participant is subject to taxes or is residing or working at the time of grant or vesting of the Restricted Stock Units or the sale of shares of Common Stock received pursuant to the Restricted Stock Units (including any rules or regulations governing securities, foreign exchange, tax, labor, employment, or other matters) may restrict or prevent the issuance of shares of Common Stock or subject the Participant to additional terms and conditions or procedural or regulatory requirements that the Participant is or will be solely responsible for and must fulfill. Such requirements may be outlined in but are not limited to items listed below in this Annex 1.

If the Participant is a citizen or resident of a country other than the country in which he or she is subject to taxes or is residing and/or working, or if the Participant transfers employment or residency after the Restricted Stock Units are granted to him or her, the information contained in this Annex 1 may not be applicable to the Participant. Tax laws are often complex and outcomes can vary depending on individual circumstances. Accordingly, the Participant is advised to seek appropriate professional advice as to how tax and other relevant laws in the applicable country may apply to his or her situation.

UNITED STATES

The second to last sentence of Section 2(d) of Agreement is hereby deleted in its entirety and replaced with the following:

"For the purposes of this Agreement, a "Change of Control" shall mean the occurrence of a Section 409A Change of Control (as defined in Section 17)."

As of the Grant Date, if the Participant either (i) qualifies for Retirement (as defined in Section 2(c) of the Agreement) or (ii) may become eligible to qualify for Retirement prior to the Scheduled Payment Date, Section 4 of the Agreement is hereby deleted in its entirety and replaced with the following:

"**Dividend Equivalents.** Cash dividends on Shares shall be credited to a dividend book entry account on behalf of the Participant with respect to each Restricted Stock Unit granted to the Participant, provided that such cash dividends shall not be deemed to be reinvested in Shares and will be held uninvested and without interest. The Participant's right to receive any such cash dividends shall vest if and when the related Restricted Stock Unit vests, and such cash dividends shall be paid in cash to the Participant if and when the related Restricted Stock Unit is paid to the Participant. Stock dividends on Shares shall be credited to a dividend book entry account on behalf of the Participant with respect to each Restricted Stock Unit granted to the Participant. The Participant's right to receive any such stock dividends shall vest if and when the related Restricted Stock Unit vests, and such stock dividends shall be paid in stock to the Participant if and when the related Restricted Stock Unit is paid to the Participant."

The following shall be added to the Agreement as a new Section 17:

"**Change of Control Defined.** For purposes of this Agreement, a "Section 409A Change of Control" shall be deemed to have occurred upon:

- (i) an acquisition by any Person of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Act) of (A) 50% or more of the then outstanding Shares or (B) 33% or more of the total combined voting power of the then outstanding voting securities of HSI entitled to vote generally in the election of directors (the "Outstanding HSI Voting Securities"); excluding, however, the following: (w) any acquisition directly from the Company, other than an acquisition by virtue of the exercise of a conversion privilege unless the security being so converted was itself acquired directly from the Company, (x) any acquisition by the Company, (y) any acquisition by an employee benefit plan (or related trust) sponsored or maintained by the Company or (z) any acquisition by any corporation pursuant to a reorganization, merger, consolidation or similar corporate transaction (in each case, a "Corporate Transaction"), if, pursuant to such Corporate Transaction, the conditions described in clauses (A), (B) and (C) of paragraph (iii) below are satisfied; or
- (ii) within any 12-month period beginning on or after the date of the Agreement, the individuals who constitute the Board immediately before the beginning of such period (the Board as of the date hereof shall be hereinafter referred to as the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided that for purposes of this Subsection any individual who becomes a member of the Board subsequent to the date hereof whose election, or nomination for election by HSI's stockholders, was approved by a vote of at least a majority of those individuals who are members of the Board and who are also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; but, provided further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board shall not be so considered as a member of the Incumbent Board; or
- (iii) the consummation of a Corporate Transaction or, if consummation of such Corporate Transaction is subject to the consent of any government or governmental agency, the obtaining of such consent (either explicitly or implicitly by consummation); excluding, however, such a Corporate

[Table of Contents](#)

Transaction pursuant to which (A) all or substantially all of the individuals and entities who are the beneficial owners, respectively, of the outstanding Shares and Outstanding HSI Voting Securities immediately prior to such Corporate Transaction will beneficially own, directly or indirectly, more than 60% of, respectively, the outstanding shares of common stock of the corporation resulting from such Corporate Transaction and the combined voting power of the outstanding voting securities of such corporation entitled to vote generally in the election of directors, in substantially the same proportions as their ownership, immediately prior to such Corporate Transaction, of the outstanding Shares and Outstanding HSI Voting Securities, as the case may be, (B) no Person (other than the Company, any employee benefit plan (or related trust) of the Company or the corporation resulting from such Corporate Transaction and any Person beneficially owning, immediately prior to such Corporate Transaction, directly or indirectly, 33% or more of the outstanding Shares or Outstanding HSI Voting Securities, as the case may be, will beneficially own, directly or indirectly, 33% or more of, respectively, the outstanding shares of common stock of the corporation resulting from such Corporate Transaction or the combined voting power of the then outstanding securities of such corporation entitled to vote generally in the election of directors and (C) individuals who were members of the Incumbent Board will constitute at least a majority of the members of the board of directors of the corporation resulting from such Corporate Transaction; or

(iv) the sale or other disposition of all or substantially all of the assets of the Company; excluding, however, such sale or other disposition to a corporation with respect to which, following such sale or other disposition, (x) more than 60% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors will be then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the outstanding Common Stock and Outstanding HSI Voting Securities immediately prior to such sale or other disposition in substantially the same proportion as their ownership, immediately prior to such sale or other disposition, of the outstanding Common Stock and Outstanding HSI Voting Securities, as the case may be, (y) no Person (other than the Company and any employee benefit plan (or related trust) of the Company or such corporation and any Person beneficially owning, immediately prior to such sale or other disposition, directly or indirectly, 33% or more of the outstanding Common Stock or Outstanding HSI Voting Securities, as the case may be) will beneficially own, directly or indirectly, 33% or more of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors and (z) individuals who were members of the Incumbent Board will constitute at least a majority of the members of the board of directors of such corporation.

(v) No event set forth herein shall constitute a "Section 409A Change of Control" unless such event also qualifies as a "change in control event" for purposes of Treasury Regulation § 1.409A-3(i)(5). Accordingly, the definition of "Section 409A Change of Control" set forth herein shall be limited, construed and interpreted in accordance with Section 409A and the regulations issued thereunder."

The following shall be added to the Agreement as a new Section 18:

"**Section 409A.** This Agreement is subject to Section 16(i) of the Plan, and any provisions in this Agreement providing for the payment of "nonqualified deferred compensation" (as defined in Section 409A of the Code and the Treasury regulations thereunder) to the Participant are intended to comply with, or be exempt from, the requirements of Section 409A of the Code, and this Agreement shall be interpreted in accordance therewith. Neither party individually or in combination may accelerate or defer the timing of the payment of any such nonqualified deferred compensation, except in compliance with Section 409A of the Code and this Agreement, and no amount shall be paid prior to the earliest date on which it is permitted to be paid under Section 409A of the Code and this Agreement. In no event whatsoever shall the Company be liable for any additional tax, interest or penalty that may be imposed on the Participant as a result of Section 409A of the Code or any damages for failing to comply with Section 409A of the Code. A Termination of Employment or Retirement shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits subject to Section 409A of the Code upon or following a Termination of Employment or Retirement, as applicable, unless such Termination of Employment or Retirement, as applicable, is also a "separation from service" within the meaning of Section 409A of the Code and, for purposes of any such provision of this Agreement, references to a "termination," "termination of employment" or like terms shall mean "separation from service." If the Participant is a "specified employee," upon his or her "separation from service" (as defined under Section 409A of the Code under such definitions and procedures as established by the Company in accordance with Section 409A of the Code), any portion of a payment, settlement, or other distribution made upon such a "separation from service" that would cause the acceleration of, or an addition to, any taxes pursuant to Section 409A of the Code will not commence or be paid until a date that is six (6) months and one (1) day following the applicable "separation from service." Any payments, settlements, or other distributions that are delayed pursuant to this Section 18 following the applicable "separation from service" shall be accumulated and paid to the Participant in a lump sum without interest on the first business day immediately following the required delay period. Any amounts payable hereunder that satisfy the short-term deferral exception in Treas. Reg. § 1.409A-1(b)(4) shall not be subject to Section 409A of the Code. Whenever a payment under this Agreement may be paid within a specified period, the actual date of payment within the specified period shall be within the Company's sole discretion."

**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: May 4, 2021

/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: May 4, 2021

/s/ Steven Paladino

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 March 27, 2021, 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: May 4, 2021

/s/ Stanley M. Bergman
Stanley M. Bergman
Chairman and Chief Executive Officer

Dated: May 4, 2021

/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.