REFINITIV

DELTA REPORT

10-Q

HSIC - HENRY SCHEIN INC

10-Q - JUNE 29, 2024 COMPARED TO 10-Q - MARCH 30, 2024

The following comparison report has been automatically generated

TOTAL DELTAS	5116
CHANGES	691
DELETIONS	1808
ADDITIONS	2617

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 30, June 29, 2024

or

☐

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

For the transition period from ____________ to ____________

Commission File Number:

0-27078

HENRY SCHEIN, INC.

(Exact name of registrant as specified in its charter)

Delaware

11-3136595

(State or other jurisdiction of

(I.R.S. Employer Identification No.)

incorporation or organization)

135 Duryea Road

Melville

,

New York

(Address of principal executive offices)

11747

(Zip Code)

(

631

)
843-5500

HENRY SCHEIN, INC.
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PART I. FINANCIAL INFORMATION
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See accompanying notes.

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

HENRY SCHEIN, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

March 30, June 29,
December 30,
2024
2023
(unaudited)
ASSETS
Current assets:
Cash and cash equivalents
$
159 138
$
171
Accounts receivable, net of allowance for credit losses of $

84 82
and $
83
(1)
1,644 1,559
1,863

See accompanying notes.

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HENRY SCHEIN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in millions, except share and per share data)

(unaudited)

Three Months Ended

See accompanying notes.

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HENRY SCHEIN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

(unaudited)

Three Months Ended
March 30, Six Months Ended
April June 29,
July 1,
June 29,
July 1,
2024
2023
2024
2023

Net income
$
98 105
$
128 148
$
203
$
276

Other comprehensive income, net of tax:
Foreign currency translation gain (loss)
(54) (62)
25 3
(116)
28

Unrealized gain (loss) from hedging activities	11 4	(3) (1)	15	(4)
Other comprehensive income (loss), net of tax	(43) (58)	22 2	(101)	24

See accompanying notes.

8

HENRY SCHEIN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(unaudited)

Three Six Months Ended
March 30, June 29,
April July 1,
2024
2023
Cash flows from operating activities:
Net income
$
98 203
$
128 276
Adjustments to reconcile net income to net cash provided by operating activities:
Depreciation and amortization
73 147
52 111
Non-cash restructuring charges

HENRY SCHEIN, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except share and per share data)
(unaudited
)
8 9

Note 1 – Basis of Presentation

Our condensed consolidated financial statements include the accounts of Henry Schein, Inc., and all of our controlled subsidiaries ("we", "us" and "our"). All intercompany accounts and transactions are eliminated in consolidation. Investments in unconsolidated affiliates for which we have the ability to influence the operating or financial decisions are accounted for under the equity method. Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications, individually and in the aggregate, did not have a material impact on our condensed consolidated financial condition, results of operations or cash flows.

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

The unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes to the consolidated financial statements contained in our Annual Report
on Form 10-K for the year ended December 30, 2023 and with the information contained in our other publicly-
available filings with the Securities and Exchange Commission. The condensed consolidated financial statements reflect all adjustments considered necessary for a fair presentation of the consolidated results of operations and financial position for the interim periods presented. All such adjustments are of a normal recurring nature.

The preparation of financial statements in conformity with accounting principles generally accepted in the United
States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The results of operations for the three and six months ended March 30, 2024 June 29, 2024 are not necessarily indicative of the results to be expected expected for any other interim period or for the year ending December 28, 2024. December 28, 2024.

Our condensed consolidated financial statements reflect estimates and assumptions made by us that affect, among other things, our goodwill, long-lived asset and definite-lived intangible asset valuation; inventory valuation; equity investment valuation; assessment of the annual effective tax rate; valuation of deferred income taxes and income tax contingencies; the allowance for doubtful accounts; hedging activity; supplier rebates; measurement of compensation cost for certain share-based performance awards and cash bonus plans; and pension plan assumptions.

We consolidate the results of operations and financial position of a trade accounts receivable securitization which we consider a VIE because we are its primary beneficiary, as we have the power to direct activities that most significantly affect its economic performance and have the obligation to absorb the majority of its losses or benefits. For this VIE, the trade accounts receivable transferred to the VIE are pledged as collateral to the related debt. The VIE's creditors have recourse to us for losses on these trade accounts receivable. At March 30, 2024 June 29, 2024 and December 30, 2023, certain trade accounts receivable that can only be used to settle obligations of this VIE were $ 497 330 million and $ 284 million, respectively, and the liabilities of this VIE where the creditors have recourse to us were $

Note 2 – Significant Accounting Policies and Recently Issued Accounting Standards

Significant Accounting Policies

There have been no material changes in our significant accounting policies during the three and six months ended March 30, June 29, 2024, as compared to the significant accounting policies described in Item 8 of our Annual Report on Form 10-K 10-K for the year ended December 30, 2023.

Recently Issued Accounting Standards

In December 2023, March 2024, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2024-01, "*Compensation - Stock Compensation (Topic 718): Scope Application of Profits Interest and Similar Awards,*" which clarifies how to determine whether a profit interest and similar awards should be accounted for as a share-based payment arrangement under Topic 718 or within the scope of other guidance. The ASU provides an illustrative example with multiple fact patterns and amends the structure of paragraph 718-10-15-3 of Topic 718 to improve its clarity and operability. The guidance in ASU 2024-01 applies to all entities that issue profits interest awards as compensation to employees or nonemployees in exchange for goods or services. Entities can apply the amendments either retrospectively to all periods presented in the financial statements or prospectively to profits interest awards granted or modified on or after the date of adoption. If prospective application is elected, an entity must disclose the nature of and reason for the change in accounting principle that resulted from the adoption of the ASU. This ASU is effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. We do not expect that the requirements of ASU 2024 – 01 will have a material impact on our consolidated financial statements.

In December 2023, FASB issued ASU 2023-09, “

Income Taxes (Topic 740): Improvements to Income Tax

Disclosures

,” which requires public business entities to disclose additional information in specified categories with respect to the reconciliation of the effective tax rate to the statutory rate for federal, state and foreign income taxes. It also requires greater detail about individual reconciling items in the rate reconciliation to the extent the impact of those items exceeds a specified threshold. In addition to new disclosures associated with the rate reconciliation, the

ASU requires information pertaining to taxes paid (net of refunds received) to be disaggregated for federal, state and foreign taxes and further disaggregated for specific jurisdictions to the extent the related amounts exceed a quantitative threshold.

The ASU also describes items that need to be disaggregated based on their nature, which is determined by reference to the item’s fundamental or essential characteristics, such as the transaction or event that triggered the establishment of the reconciling item and the activity with which the reconciling item is associated.

The ASU

December 15, 2024, including interim periods within those fiscal years.

beginning after December 15, 2024. Early adoption is permitted. We do not expect are currently evaluating the impact that the requirements of ASU ASU 2024 – 01 2023- 07 will have a material impact on our consolidated financial statements.

Note 3 – Cyber Incident

In October 2023, Henry Schein experienced a cyber incident that primarily affected the operations of our North

American and European dental and medical distribution businesses. Henry Schein One, our practice management software, revenue cycle management and patient relationship management solutions business, was not affected, and our manufacturing businesses were mostly unaffected. On November 22, 2023, we experienced a disruption of our ecommerce platform and related applications, which has since been was remediated.

During the three and six months ended March 30, 2024 June 29, 2024, we continued to to experience a residual impact of the cyber events events noted above relating primarily to decreased sales to episodic customers (customers (customers that had generally registered a less continuous level of demand pre-incident).

During the three and six months ended March 30, 2024 June 29, 2024, we incurred $

5 3

million and $

8

million, respectively, of expenses directly related to the cyber incident, mostly consisting of professional fees. We maintain cyber insurance, subject to certain retentions and policy limitations. With respect to the October 2023 cyber incident, we have a $

60

million insurance policy,

following a $

5
million retention. During the three and six months ended June 29, 2024, we received insurance proceeds of $
10
million, representing a partial insurance recovery of losses related to the cyber incident. The expenses and insurance recoveries related to the cyber incident are included in the selling, general and administrative line in our condensed consolidated statements of income.

HENRY SCHEIN, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except share and per share data)
(unaudited
)
12 13

(1)

Note 5
–
Segment Data

We conduct our business through two reportable segments: (i) health care distribution and (ii) technology and value-added services. These segments offer different products and services to the same customer base. Our global dental businesses serve office-based dental practitioners, dental laboratories, schools, government and other institutions. Our medical businesses serve physician offices, urgent care centers, ambulatory care sites, emergency medical technicians, dialysis centers, home health, federal and state governments and large enterprises, such as group practices, and integrated delivery networks, among other providers across a wide range of specialties. Our dental and medical groups serve practitioners in 33 countries worldwide.

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

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

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

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

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

	Three Months Ended	
	March 30,	April 1,
	2024	2023
Operating Income:		
Health care distribution	$ 126	$ 145
Technology and value-added services		

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

11 12

Note 4 – Net Sales from Contracts with Customers

Net sales are recognized in accordance with policies disclosed in Item 8 of our Annual Report on Form 10-K for the year ended December 30, 2023.

Disaggregation of Net Sales

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

Contract Liabilities

At March 30, 2024 June 29, 2024, December 30, 2023, December 30, 2023, and December 31, 2022, the current and non-current contract liabilities were were $ 84 77 million and $ 8 million; $ 89 million and $ 9 million; and $ 86 million and $ 8 million, respectively. During the the three six months ended March 30, 2024 June 29, 2024, we recognized in net sales $ 36 55 million of the amount that was previously deferred at December 30, 2023. During the three six months ended April 1, 2023 July 1, 2023, we recognized in net sales $ 35 56 million of the amounts amount that were was previously deferred at December 31, 2022. Current contract liabilities are included in accrued expenses: other and the non-current contract liabilities are are included in other liabilities within our our consolidated balance sheets.

HENRY SCHEIN, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in millions, except share and per share data)

(unaudited)

)

13

Note 6

... and sales teams, increase our geographic footprint (whether entering a new country, such as emerging markets, or expanding scale where we have already invested in businesses), and finally, those that enable us to access new technologies.

Acquisitions

During the quarter ended March 30, 2024, we made acquisitions within the technology and value-added services segment. Our acquired ownership interest in these companies was 100 %. Total consideration for these acquisitions was $ million. Net assets acquired primarily consisted of $ 8 million of goodwill and $ 12 million of intangible assets. The intangible assets acquired consisted of customer relationships and lists of

2023 Acquisitions

Acquisition of Shield Healthcare

ctober 2, 2023 we acquired a

90

% voting equity interest in Shield Healthcare, Inc. ("Shield"), a supplier of homecare medical products delivered directly to patients in their homes, for preliminary consideration of $

nd non-compete agreements of $

million (including cash paid of $

307 ion.

million, deferred consideration of $ hese acquired intangible assets were

22

n and redeemable noncontrolling interests of $

37

million). Based in California, Shield expands our existing medical business by delivering a diverse range of products, including items such as incontinence, urology, ostomy, enteral nutrition, advanced wound care and diabetes supplies. Additionally, Shield offers continuous glucose monitoring devices directly to patients in their homes.

Acquisition of S.I.N. Implant System f Shield has not been completed in several respects, including but not

ed assessments of accounts receivable, inventory, accrued liabilities and income

es. To assist in the allocation of consideration, we engaged valuation ons are

% voting equity interest in S.I.N. Implant System ("S.I.N.") for consideration of ed and liabilities assumed. will

l finalize the amounts recognized as the information necessary to complete the analysis is obtained.

ng the quarter ended March 30, 2024, we recorded immaterial measurement period adjustments,

million. Based in São Paulo, S.I.N. manufactures an extensive line of products to perform dental implant procedures and is focused on advancing the development of value-priced dental implants. S.I.N. recently expanded the distribution of its products into the United States and other international markets.

HENRY SCHEIN, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in millions, except share and per share data)

(unaudited

)

14

ccounting for the acquisition of S.I.N. has not been completed in several respects, including but not limited to finalizing valuation assessments of accounts receivable, inventory, accrued liabilities and income and non-income based taxes. To assist in the allocation of consideration, we engaged valuation specialists to determine the fair value of intangible and tangible assets acquired and liabilities assumed.

nalize the amounts recognized as the information necessary to complete the analysis is obtained.

We expect to finalize these amounts as soon as possible but no later than one year from the acquisition date. During the quarter ended March 30, 2024, we recorded insignificant measurement period adjustments, related primarily to deferred tax adjustments.

ition of Biotech Dental mation has not been presented because the impact of the S.I.N. acquisition

pril 5, 2023, we acquired a ted financial statements.

57

% voting equity interest in Biotech Dental (“Biotech Dental”), which is a provider of dental implants, clear

...tics and innovative digital dental software based in

...everal important solutions for dental practices and dental labs, including

The following table aggregates the final fair value, as of the date of acquisition, of consideration paid and

...sets acquired in the Biotech Dental acquisition, including measurement period adjustments recorded

~~h March~~ 30, ...nproved patient experience. The integration of Biotech Dental’s software with Henry

...agement software solutions will help customers streamline their

clinical as well as administrative workflow for the ultimate benefit of patients.

HENRY SCHEIN, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in millions, except share and per share data)

(unaudited

)

14

Note 6

Our acquisition strategy is focused on investments in companies that add new customers and sales teams, increase our geographic footprint (whether entering a new country, such as emerging markets, or ...scale where we have already invested in businesses), and finally, those that enable us to access ...ducts and technologies.

...on of July 1, 2023 TriMed

Measurement On April 1, 2024, we acquired a

Period 60

% voting equity interest in TriMed ... headquartered in

The following table aggregates the preliminary estimated fair value, as of the date of acquisition, of consideration paid and net assets acquired in the TriMed acquisition:

...eration of March 30,

ill is a result of synergies that are expected to originate from the acquisition as well as the expected growth potential of TriMed. The acquired goodwill is not deductible for tax purposes. The following table summarizes the preliminary identifiable intangible assets acquired as part of the acquisition of TriMed:

The accounting for the acquisition of TriMed has not been completed in several areas, including but not limited to pending assessments of accounts receivable, inventory, intangible assets, right-of-use lease assets, accrued liabilities, income and non-income based taxes and valuation of redeemable noncontrolling interests. To assist management in the allocation, we engaged valuation specialists to prepare appraisals. We will finalize the amounts recognized as the information necessary to complete the analysis is obtained. We expect to finalize these amounts as soon as possible but no later than one year from the acquisition date.

Pro forma financial information has not been presented because the impact of the TriMed acquisition during the three and six months ended June 29, 2024 was immaterial to our condensed consolidated financial statements.

2024

Weighted Average Useful

HENRY SCHEIN, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in millions, except share and per share data)

(unaudited)

15

Other 2024 Acquisitions

During the six months ended June 29, 2024, we acquired companies within the health care distribution technology and value-added services segments. Our acquired ownership interest in these companies range from 51 % to 100 %. Total consideration for these acquisitions was $ 23

ed primarily consisted of $
13
million of goodwill and $
Acquisitions
Acquisition of Shield Healthcare The intangible assets acquired consisted of customer relationships and lists
of $
On October 2, 2023 we acquired a
7
90
million, product development of $
equity interest in Shield Healthcare, Inc. ("Shield"), a supplier of homecare medical products
d directly to patients in their homes, for consideration of $
348
million, non-compete agreements of $
million
million and trademarks and tradenames of $
During the quarter ended June 29, 2024, we completed the accounting for our acquisition of Shield. The
ing table aggregates the final fair value, as of the date of the acquisition, of consideration paid and
net assets acquired in the Shield acquisition, including measurement period adjustments recorded through
million and redeemable noncontrolling interests of $
n). Shield expands our existing medical business by delivering a diverse range of products, including
continence, urology, ostomy, enteral nutrition, advanced wound care and diabetes
upplies.
dditionally, Shield offers continuous glucose monitoring devices directly to patients in their homes.
espectively.
oodwill is a result of the synergies and cross-selling opportunities that these acquisitions are expected to
s, as well as the expected growth potential. Approximately half of the acquired goodwill is
eductible for tax purposes.
he impact of these acquisitions, individually and in the aggregate, was not considered material to our
nsed consolidated financial statements.

HENRY SCHEIN, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in millions, except share and per share data)

(unaudited
)

16

Goodwill is a result of synergies that are expected to originate from the acquisition as well as the expected growth potential of Shield. The acquired goodwill is not deductible for tax purposes. .

llowing table summarizes the identifiable intangible assets acquired as part of the acquisition of

The pro forma financial information has not been presented because the impact of the Shield acquisition was immaterial to our consolidated financial statements.

Acquisition of S.I.N. Implant System

5, 2023, we acquired a

100

% voting equity interest in S.I.N. Implant System ("S.I.N.") for consideration of

$

During the quarter ended June 29, 2024, we completed the accounting for our acquisition of S.I.N. The following table aggregates the final fair value, as of the date of acquisition, of consideration paid and net assets acquired in the S.I.N. acquisition, including measurement period adjustments: ants. In 2023, S.I.N.

ited States and other international markets

Three Months Ended

March 30, **Six Months Ended**

June 29, 2024

June 29, 2024

age Useful Lives

North

n years)

America

ustomer relationships and lists

International

Global

North

2

America

rademarks / Tradenames

International

0

Global

Goodwill is a result of synergies that are expected to originate from the acquisition as well as the expected growth potential of S.I.N. The acquired goodwill is not deductible for tax purposes.

Net sales:

Health care distribution

Dental

$

1,103 1,129

$

811 795

$

1,914 1,924

$

2,232

$

1,606

$

3,838

Medical

1,014 970

27 28

1,041 998

1,984

55 17

2,039

Total health care distribution

2,117 2,099

838 823

2,955 2,922

HENRY SCHEIN, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in millions, except share and per share data)

(unaudited)

The following table summarizes the identifiable intangible assets acquired as part of the acquisition of S.I.N.:

Pro forma financial information has not been presented because the impact of the S.I.N. acquisition was immaterial to our consolidated financial statements.

Acquisition of Biotech Dental

On April 5, 2023, we acquired a 57% voting equity interest, for preliminary consideration of $423 million (including cash paid of $216 million, $25 million of contributed equity share in a controlled subsidiary, and redeemable noncontrolling interests of $182 million), in Biotech Dental, a provider of dental implants, clear aligners, individualized prosthetics and innovative digital dental software based in France. Biotech Dental has several important solutions for dental practices and dental labs, including Nemotec, a comprehensive, integrated suite of planning and diagnostic software using open architecture that connects disparate medical devices to create a digital view of the patient, offering greater diagnostic and an improved patient experience. The integration of Biotech Dental's software with Henry Schein One's industry-leading practice management software solutions will help customers streamline their clinical as well as administrative workflow for the ultimate benefit of patients.

During the quarter ended March 30, 2024, we completed the accounting for our acquisition of Biotech Dental. The following table aggregates the final fair value, as of the date of acquisition, of consideration paid and net assets acquired, including measurement period adjustments:

Tradenames

Total

Goodwill is a result of synergies that are expected to originate from the acquisition as well as the expected growth potential of Biotech Dental.

The acquired goodwill is not deductible for tax purposes.

4,216
1,661
5,877
Technology and value-added services
189 186
28
217 214
375
56
431
Total net sales
$
2,306 2,285
$
866 851
$
3,172 3,136
$
4,591
$
1,717
$
6,308

Three Months Ended

April

Six Months Ended

July 1, 2023

July 1, 2023

North America

International

Global

North America

International

Global

Net sales:

Health care distribution

Dental

$
1,144 1,169
$
754 788
$
1,898 1,957
$
2,313
$
1,542
$

HENRY SCHEIN, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in millions, except share and per share data)

(unaudited)

15

Goodwill is a result of expected synergies that are expected to originate from the acquisition as well as the expected growth potential of Biotech Dental. The acquired goodwill is deductible for tax purposes. During the quarter ended March 30, 2024 we finalized our accounting for the acquisition and recorded

3,855 ...asurement period adjustments related primarily to the completion of the intangibles valuation, including

Medical ... The following table summarizes the identifiable intangible assets acquired as part of the acquisition of

951 1,925 ...d tax and certain other assets and liabilities.

20 25

971 950

1,876

45

1,921 ... pro forma financial information has not been presented because the impact of the Biotech Dental

Total health care distribution acquisition was immaterial to our condensed consolidated financial statements.

2,095 2,094 *...23 Acquisitions*

774 813 ...g the year ended December 30, 2023, in addition to those noted above, we acquired companies within

2,869 2,907 ...h care distribution and technology and value-added services segments. Our acquired ownership

4,189 ...rest ranged between

1,587

5,776

Technology and value-added services

166 168 ...uring the quarter three and six months ended March 30, 2024 June 29, 2024, we recorded an

25 adjustment of $

191 193

334 ...illion and $

Goodwill is a result of the synergies and cross-selling opportunities that these acquisitions are expected to

50

provide for us, as well as the expected growth potential. The majority of the acquired goodwill is

384

deductible for tax purposes.

The pro forma financial information for our 2023 acquisitions has not been presented because the ... statements of

Total ... Weighted-Average Useful

$ ... impact of the acquisitions was immaterial to our condensed consolidated financial statements.

Acquisition Costs

2,261 2,262

During the three and six months ended March 30, 2024 and April 1, 2023 June 29, 2024 we incurred $

$ 2.1

During the three six months ended March 30, 2024 June 29, 2024 we completed the accounting for certain

799 838 ...acquisitions that occurred in the year ended December 30, 2023. In relation to these acquisitions, we did

$ not record material adjustments in our condensed consolidated financial statements relating to changes in

7.3

3,060 3,100 ... values of assets acquired, liabilities assumed and contingent consideration assets and liabilities.

million in acquisition costs,

$ respectively. During the three and six months ended July 1, 2023 we incurred $

4,523

$ million and $

1,637 ...demarks / Tradenames

$ 18

million in acquisition costs, which respectively. These costs are included in "selling, the selling, general

6,160 and administrative" administrative within line in our condensed consolidated statements of income.

Product development

124

10

Total

$

HENRY SCHEIN, INC.

Note 7 – Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between
(1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs).
The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

le

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.
Certain of our notes receivable contain variable interest rates. We believe the carrying amounts are a reasonable estimate of fair value based on the interest rates in the applicable markets. Our investments and notes receivable fair value is based on Level 3 inputs within the fair value hierarchy.

Debt

The fair value of our debt (including bank credit lines, current maturities of long-term debt and long-term debt) is based on Level 3 inputs within the fair value hierarchy, and as of March 30, 2024 June 29, 2024

17 20

The fair value of total return swaps is determined by valuing the underlying exchange traded funds of the swap using market-on-close pricing by industry providers as of the valuation date that are classified within Level 2 of the fair value hierarchy.

See Note 13 – Redeemable Noncontrolling Interests for additional information.

Assets measured on a non-recurring basis at fair value include intangibles. Inputs for measuring intangibles are classified as Level 3 within the fair value hierarchy.

Redeemable noncontrolling interests

The values for redeemable noncontrolling interests are based on recent transactions and/or implied multiples of earnings that are classified within Level 3 of the fair value hierarchy.

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 30, June 29, 2024 and December 30,

)

18 21

Note 8 – Debt *Bank Credit Lines*

Bank credit lines consisted of the following:

Revolving Credit Agreement

On August 20, 2021, we entered into a $1.0 billion revolving credit agreement (the "Revolving Credit Agreement") which was subsequently amended and restated on

March 30, July 11, 2023

to extend the maturity date to July 11, 2028 and update the interest rate provisions to reflect the current market approach for a multicurrency facility. The interest rate on this revolving credit facility is based on Term Secured Overnight Financing Rate ("Term SOFR") plus a spread based on our leverage ratio at the end of each financial reporting quarter. As of March 30, 2024 June 29, 2024 the interest rate on this revolving credit agreement was 5.32 5.33 % plus 1.10 % for a combined rate of 6.42 6.43 %. As of December 30, 2023 the interest rate on this revolving credit agreement was 5.36 % plus 1.00 % for a combined rate of 6.36 %.

	June 29, 2024	December 30, 2023
Revolving credit agreement	$ 50	$ 200
Other short-term bank credit lines	214 505	64
Total	$ 264 505	$ 264

The Revolving Credit Agreement requires, among other things, that we maintain certain maximum leverage ratios. Additionally, the Revolving 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 30, 2024 June 29, 2024 and December 30, 2023, December 30, 2023, we had $ 50 0 million and $

HENRY SCHEIN, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in millions, except share and per share data)
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19 22

Long-term debt

Long-term debt consisted of the following:

Private Placement Facilities

Our private placement facilities include four

...e placement facility borrowings, which have a weighted average interest
...te of ... an uncommitted basis at fixed rate economic terms to be agreed upon at the
...me of issuance, from time to time through
...66
...ctober 30, 2026
..., as of March 30, 2024 June 29, 2024 are presented in the following table:
The facilities allow us to issue senior promissory notes to the lenders lenders at a fixed rate based on an
... spread over applicable treasury notes at the time of issuance. The term of each possible
...suance will be selected by us and can range from five
... years
...ith an average life no longer than
...2

...suances under the facilities will be used for general corporate purposes,
... capital expenditures, to refinance existing indebtedness, and/or to fund
...otential acquisitions.
The agreements provide, among other things, that we maintain certain maximum leverage ratios, and
...ontain restrictions relating to subsidiary indebtedness, liens, affiliate transactions, disposal of assets and
...ertain changes in ownership. These facilities contain make-whole provisions in the event that we pay off
... prior to the applicable due dates.

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2023

Term Loan

On July 11, 2023, we entered into a three-year
$
750
million term loan credit agreement (the “Term Credit
Agreement”). The interest rate on this term loan is based on the Term SOFR plus a spread based on our
leverage ratio at the end of each financial reporting quarter. This term loan matures on July 11, 2026. We
have been
We are required to make quarterly payments of $
5
million from September 2023 through June 2024 and quarterly are required to make quarterly payments of
$
9
million from September 2024 through June 2026, with the remaining balance balance due in
July 2026. As
U.S. Trade Accounts Receivable Securitization
of March 30, 2024 June 29, 2024, the borrowings outstanding under this term loan were $
We have a facility agreement based on our U.S. trade accounts receivable that is structured as an asset-
736 731
backed securitization program with pricing committed for up to three years
million. At March 30, 2024, June 29,
. This facility agreement has a purchase limit of
2024, the interest rate under the Term Credit Agreement was
$
5.32 5.33
450
% plus
million with two
1.47
banks as agents, and expires on
% for a combined rate of
December 15, 2025
6.79 6.80
%. As of
As of March 30, 2024 June 29, 2024 and December 30, 2023, the borrowings outstanding under this
December 30, 2023, of December 30, 2023, the borrowings outstanding under this term loan were $
securitization facility were
741
$
million. At December 30, 2023,
300 195
the interest rate under the Term Credit Agreement was
million and $
5.36
210
% plus
million, respectively. At March 30, 2024 June 29, 2024, the interest rate on borrowings under this facility
1.35
was based on the asset-backed commercial paper rate of
% for a combined rate of
5.47 5.49
6.71
% plus
%. However,
0.75
we have a hedge in place that ultimately creates an effective fixed rate of
%, for a combined rate of
5.91
6.22 6.24
% and
%. At
5.79
December 30, 2023, the interest rate on borrowings under this facility was based on the asset-backed
% at March 30, 2024 June 29, 2024 and
commercial paper rate of
December 30, 2023, respectively. The Term Credit Agreement requires, among other things, that we
5.67
maintain certain maximum leverage ratios. Additionally, the Term Credit Agreement contains customary

On May 17, 2024, we amended this facility to temporarily adjust certain covenant levels.

HENRY SCHEIN, INC.
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21 24
Note 9 – Income

For the three six months ended March 30, 2024 June 29, 2024 our effective tax rate was
25.6 25.2
%, compared to
23.8 22.8
% for the prior year period. The difference between our effective tax rate and the federal statutory tax rate primarily relates to state and foreign income taxes and interest expense. taxes.
The Organization of Economic Co-Operation and Development (OECD) issued technical and administrative guidance on Pillar Two Model Rules rules in December 2021, which provides for a global minimum tax rate on the earnings of large multinational businesses on a country-by-country basis. Effective January 1, 2024, the minimum global tax rate is 15% for various jurisdictions pursuant to the Pillar Two framework. Future tax reform resulting from these developments may result in changes to long-standing tax principles, which may adversely impact our effective tax rate going forward or result in higher cash tax liabilities. rules. As of
March 30, 2024 June 29, 2024, the impact of the Pillar
Pillar Two Rules rules to our financial statements was immaterial. As we operate in jurisdictions which have adopted Pillar
Pillar Two, we are continuing to analyze the implications to effectively manage the impact for 2024 and beyond. Future
tax reform resulting from these developments may result in changes to long-standing tax principles, which may adversely impact our effective tax rate going forward or result in higher cash tax liabilities.
The total amount of unrecognized tax benefits, which are included in "other liabilities" within our condensed consolidated balance sheets, as of March 30, 2024 June 29, 2024 and December 30, 2023, was $
113 107
million and $
115
million,
respectively, of which $
106 99
million and $
107
million, respectively, would affect the effective tax rate if recognized.
It is possible that the amount of unrecognized tax benefits will change in the next 12 months, which may result in a material impact on our condensed consolidated statements of income.
All tax returns audited by the IRS are officially closed through 2019. The tax years subject to examination by the
IRS include years 2020 and forward. In addition, limited positions reported in the 2017 tax year are subject to IRS
examination.
The amount of tax interest expense included as a component of the provision for taxes was $

1
million and $

[redacted]

HENRY SCHEIN, INC.
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22 25

Note 10 – Plan Plans of

On August 1, 2022, we committed to a restructuring plan (the “2022 Plan”) focused on funding the priorities of the
BOLD+1 strategic plan, streamlining operations and other initiatives to increase efficiency. We revised our previous expectations The 2022 Plan has been completed as of completion and we have extended this initiative through the end of 2024. July 31, 2024. We are currently unable expect to record restructuring charges of $
12

Restructuring costs recorded for the three and six months ended March 30, 2024 June 29, 2024 and
of the following:
right-size operations and further increase efficiencies. We expect to record restructuring charges associated with the 2024 Plan during the second half of 2024 and in good faith to 2025, however an make a determination of an estimate of the amount or range of amounts expected to be incurred in connection with these charges has these activities, both with respect to each major type of cost associated and to the total cost, or an estimate of the amount or range of amounts that will result in future cash expenditures. not yet been determined.
million, respectively. The restructuring costs for these periods primarily related to severance and employee-related and employee-related costs, accelerated amortization of right-of-use lease assets and fixed assets, and other lease exit costs.

HENRY SCHEIN, INC.
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The following table summarizes, by reportable segment, the activity related to the liabilities associated with our restructuring initiatives for the three six months ended March 30, 2024 June 29, 2024. The remaining accrued balance of restructuring restructuring costs as of March 30, 2024 June 29, 2024, which primarily relates to severance and employee-related costs, is included in accrued expenses: other within our condensed consolidated balance sheets. Liabilities related to exited leased facilities are recorded within abilities within our condensed consolidated balance sheets.

HENRY SCHEIN, INC.
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Note 11 – Legal Proceedings

Henry Schein, Inc. has been named as a defendant in multiple opioid related lawsuits (currently less than one-hundred and seventy-five (175); one or more of Henry Schein, Inc.'s subsidiaries is also named as a defendant in a number of those cases). Generally, the lawsuits allege that the manufacturers of prescription opioid drugs engaged in a false advertising campaign to expand the market for such drugs and their own market share and that the entities in the supply chain (including Henry Schein, Inc. and its subsidiaries) reaped financial rewards by refusing or otherwise failing to monitor appropriately and restrict the improper distribution of those drugs. These actions consist of some that have been consolidated within the MultiDistrict Litigation ("MDL") proceeding In Re National Prescription Opiate Litigation (MDL No. 2804; Case No. 17-md-2804) and are currently stayed, and others which remain pending in state courts and are proceeding independently and outside of the MDL. At this time, the following cases are case is set for trial: the action filed by DCH Health Care Authority, et al. in Alabama state court, which is currently set for a jury trial on July 8, 2024; the action filed by Mobile County Board of Health, et al. in Alabama state court, which has been set for a jury trial on August 12, 2024; and the action filed by Florida Health Sciences Center, Inc. (and 25 other hospitals located throughout the State of Florida) in Florida state court, which is currently scheduled for a jury trial in September 2025. Of Henry Schein's 2023 net sales of approximately $12.3 billion, sales of opioids represented less than four-tenths four-tenths of 1 percent. Opioids represent a negligible part of our business. We intend to defend ourselves vigorously against these actions.

Note 3 – Cyber Incident

On January 26, 2024, a second putative class action was filed against the Company based on the cyber incident, also in the EDNY, Case No. 24-cv-550 (the "Depperschmidt Action"). On February 12, 2024, the Depperschmidt Action was voluntarily dismissed without prejudice. On February 16, 2024, an amended complaint was filed in the Cruz-Bermudez Action with additional plaintiffs' counsel from the Depperschmidt Action and an additional new plaintiff.

In August 2022, Henry Schein received a Grand Jury Subpoena from the United States Attorney's Office for the Western District ... [illegible] ... violations of the Federal Food, Drug & Cosmetic Act by Butler Animal Health Supply, LLC ("Butler"), a former subsidiary of

The Cruz-Bermudez Action ... seeks to represent a class of all individuals whose personally identifying information and personal health information was compromised by the incident. Plaintiffs generally claim to have ...

HENRY SCHEIN, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Cosmetic Act by Butler Animal Health Supply, LLC (“Butler”), a former subsidiary of Henry Schein. The investigation relates to the sale of veterinary prescription drugs to certain customers. In October 2022, Henry Schein received a second Grand Jury Subpoena from the United States Attorney’s Office for the Western District of Virginia. The October 2022 Subpoena seeks documents relating to payments Henry Schein received from Butler or Covetrus, Inc. (“Covetrus”). Butler was spun off into a separate company and became a subsidiary of Covetrus in 2019 and is no longer owned by Henry Schein. We are cooperating with the investigation.

On January 18, 2024, a putative class action was filed against the Company in the U.S. District Court for the Eastern District of New York (“EDNY”), Case No. 24-cv-387 (the “Cruz-Bermudez Action”), based on the October 2023 cyber incident described in

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been harmed by alleged actions and/or omissions by the Company in connection with the incident and that the Company made deceptive public statements regarding privacy and data protection. Plaintiffs assert a variety of claims seeking monetary damages, injunctive relief, costs and attorneys’ fees, and other related relief. On March 22, 2024, plaintiffs voluntarily withdrew two of their five causes of action. On April 8, 2024, the court denied the Company’s motion to dismiss the remaining claims. The case remains pending.

On June 6, 2024, plaintiffs and the Company informed the court that they had agreed to a term sheet for a class action settlement of the Cruz-Bermudez Action. The settlement agreement is subject to the parties’ finalization and the court’s approval. The final settlement terms enumerated in a settlement agreement, including the settlement amount, will depend in part on the outcome of Henry Schein’s review of the data impacted in the cyber incident to determine the final class size total. The court stayed the Cruz-Bermudez Action through September 13, 2024 and ordered plaintiffs to move for preliminary approval of the proposed settlement by that date. We intend to defend ourselves expect any vigorously against this action. settlement will be for an immaterial amount.

Henry Schein, Inc. and its affiliate, subsidiary, North American Rescue, LLC (“NAR”), have been named as defendants in a qui tam lawsuit brought under the federal False Claims Act (“FCA”), in an action entitled *Russ and Murphy ex rel. United States v. North American Rescue, LLC et al.*; Case No. 21-cv-04238, filed in the United States District Court for the Eastern District of Pennsylvania. The case was filed under seal in 2021 by two relators (Corey Russ and Chris Murphy) who worked for one of NAR’s competitors. Relators also name C-A-T Resources, LLC (“CAT-R”) as a defendant. CAT-R manufactures one of the products at issue in the case (the combat application tourniquet, or

"CAT"). After the Department of Justice declined to intervene, the case was unsealed, and Relators filed their first amended complaint in November 2023. In response to motions to dismiss filed by Henry Schein, NAR and CAT-R, Relators requested and obtained leave to file their Second Amended Complaint on April 24, 2024. Relators' FCA claims are based on allegations that NAR and Henry Schein made false representations and certifications in connection with, and sold and submitted false claims for payment to the federal government for, various medical products that Relators contend violated certain "Buy American" laws (e.g., the Berry Amendment and Trade Agreements Act of 1979) and/or were not properly sterilized as noted on the products' packaging, and thus misbranded. These products include the CAT, syringes, compressed gauze, tracheostomy kits, hypothermia blankets, eye, ear, nose and throat kits, and trauma dressing. Relators allege Henry Schein controlled and supervised NAR's alleged misconduct for a period of time. Relators seek three times the amount of damages to be proved at trial, statutory civil penalties, reasonable expenses, attorneys' fees and costs, and prejudgment interest. On July 26, 2024, the court ruled on motions to dismiss filed by Henry Schein, NAR and CAT-R. The court dismissed the claims against Henry Schein (without prejudice) and Henry Schein is no longer in the case. The motions to dismiss filed by NAR and CAT-R were denied. We intend to defend ourselves vigorously against this 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 30, 2024 June 29, 2024, we had accrued our best estimate of potential losses losses relating to claims that were probable to result in liability and for which we were able to reasonably estimate a loss. This accrued amount, as well as related expenses, was not material to our financial position, results of operations or cash flows. Our method for determining estimated losses considers currently available facts, presently enacted laws and regulations and other factors, including probable recoveries from third parties.

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Note 12 – Stock-Based

Stock-based awards are provided to certain employees under our 2020 2024 Stock Incentive Plan (formerly known as our
2020 Stock Incentive Plan) and to non-employee directors under our 2023 Non-Employee Director Stock Incentive Plan (formerly known as the 2015 Non-
Employee Director Stock Incentive Plan) Plan (together, the "Plans"). The Plans are administered by the Compensation
Committee of the Board of Directors (the
(the "Compensation Committee"). Historically, equity-based awards to our employees have been granted solely in the form of time-based and performance-based restricted stock units
("RSUs") with the exception of our 2021 plan year in which non-qualified stock options were issued in place of performance-based
performance-based RSUs and in 2022, when we granted time-based and performance-based RSUs, as well as non- non-qualified
qualified stock options. For Starting with our 2023
plan year, we returned to granting our employees equity-based awards solely in the form of time-based and performance-based RSUs. Our non-employee directors receive equity-based awards solely in the form of time-based time-
based RSUs.

RSUs are stock-based awards granted to recipients with specified vesting provisions. In the case of RSUs, common stock is delivered on or following satisfaction of vesting conditions. We issue RSUs to employees that primarily vest (i) solely based on the recipient's continued service over time, primarily with four
-year cliff vesting and/or (ii)
based on achieving specified performance measurements and the recipient's continued service over time, primarily with
three
-year cliff vesting. RSUs granted to our non-employee directors primarily include
12
-month cliff vesting.

For these RSUs, we recognize the cost as compensation expense on a straight-line basis.

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

Each of the Plans provide for certain adjustments to the performance measurement in connection with awards under the Plans. With respect to the performance-based RSUs granted under our 2020 2024 Stock Incentive Plan, such performance measurement adjustments relate to significant events, including, without

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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.

Risk factors and uncertainties that could cause actual results to differ materially from current and historical results include, but are not limited to: 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, as well as significant demands on our operations, information systems, legal, regulatory, compliance, financial and human resources functions in connection with acquisitions, dispositions and joint ventures; certain provisions in our governing documents that may discourage third-party acquisitions of us; adverse changes in supplier rebates or other purchasing incentives; risks related to the sale of corporate brand products; security risks associated with our information systems and technology products and services, such as cyberattacks or other privacy or data security breaches (including the October 2023 incident); effects of a highly competitive (including, without limitation, competition from third-party online commerce sites) and consolidating market; changes in the health care industry;
risks from expansion of customer purchasing power and multi-tiered costing structures; increases in shipping costs for our products or other service issues with our third-party shippers; general global and domestic macro-economic and political conditions, including inflation, deflation, recession, ongoing wars, fluctuations in energy pricing and the value of the U.S. dollar as compared to foreign currencies, and changes to other economic indicators,
international trade agreements, potential trade barriers and terrorism; geopolitical wars; failure to comply with existing and future regulatory requirements; risks associated with the EU Medical Device Regulation; failure to comply with laws and regulations relating to health care fraud or other laws and regulations; failure to comply with laws and regulations relating to the collection, storage and processing of sensitive personal information or standards in electronic health records or transmissions; changes in tax legislation; risks related to product liability, intellectual property and other claims; risks associated with customs policies or legislative import restrictions; risks associated with disease outbreaks, epidemics, pandemics (such as the COVID-19 pandemic), or similar wide-spread public health concerns and other natural or man-made disasters; risks associated with our global operations; litigation risks; new or unanticipated litigation developments and the status of litigation matters; our dependence on our senior management, employee hiring and retention, and our relationships with customers, suppliers and manufacturers; and disruptions in financial markets. The order in which these factors appear should not be construed to indicate their relative importance or priority.

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

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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 About Media Center page of our website.

Recent Developments

While the U.S. economy has recently experienced inflationary pressures and pressures and strengthening of the U.S. dollar, their impacts impacts have not been material to our results of operations. Though inflation impacts both our revenues and costs, the depth the depth and breadth of our product portfolio often allows us to offer lower-cost national brand solutions or corporate brand alternatives to our more price-sensitive customers who are unwilling to absorb price increases, thus positioning us to protect our gross profit.

Our condensed consolidated financial statements reflect estimates and assumptions made by us that affect, among other things, our goodwill, long-lived asset and definite-lived intangible asset valuation; inventory valuation; equity investment valuation; assessment of the annual effective tax rate; valuation of deferred income taxes and income tax contingencies; the allowance for doubtful accounts; hedging activity; supplier rebates; measurement of compensation cost for certain share-based performance awards and cash bonus plans; and pension plan assumptions.

Cyber Incident

In October 2023 Henry Schein experienced a cyber incident that primarily affected the operations of our North American and European dental and medical distribution businesses. Henry Schein One, our practice management software, revenue cycle management and patient relationship management solutions business, was not affected, and our manufacturing businesses were mostly unaffected. On November 22, 2023, we experienced a disruption of our ecommerce platform and related applications, which has since been was remediated.

During the three and six months ended March 30, 2024 June 29, 2024, we continued to to experience a residual impact of the cyber events events noted above relating primarily to decreased sales to episodic customers (customers (customers that had generally registered a less continuous level of demand pre-incident). We have a number of programs planned and underway focused on re-establishing these customers.

We maintain cyber insurance, subject to certain retentions and policy limitations. With respect to the October 2023 cyber incident, we have a $60 million insurance policy, following a $5 million retention. During the three and six months ended June 29, 2024, we received insurance proceeds of $10 million, representing a partial insurance recovery of losses related to the cyber incident.

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Executive-Level Overview

Henry Schein, Inc. is a solutions company for health care professionals powered by a network of people and technology.

We

believe we are the world's largest provider of health care products and services primarily to office-based dental and medical practitioners, as well as alternate sites of care.

We

serve more than one million customers worldwide including dental practitioners, laboratories, physician practices and ambulatory surgery centers, as well as government, institutional health care clinics and other alternate care clinics.

We

believe that we have a strong brand identity due to our more than 91 92 years of experience distributing health care products. We are headquartered in Melville, New York, employ approximately 25,000 26,000 people (of which approximately 13,000 are based outside of the United States) and have operations or affiliates in 33 countries and territories. Our broad global footprint has evolved over time through our organic success as well as through contribution from strategic acquisitions.

We

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

While our primary go-to-market strategy is in our capacity as a distributor, we also market and sell our own corporate brand portfolio of cost-effective, high-quality consumable merchandise products, including in vitro diagnostic devices, manufacture certain dental specialty products in the areas of implants, orthodontics and endodontics, manufacture drug products, and repackage/relabel prescription drugs and/or devices.

We

have achieved scale in these global businesses primarily through acquisitions, as manufacturers of these products typically do not utilize a distribution channel to serve customers.

We

conduct our business through two reportable segments: (i) health care distribution and (ii) technology and value-added services. These segments offer different products and services to the same customer base. Our global dental businesses serve office-based dental practitioners, dental laboratories, schools, government and other institutions. Our medical businesses serve physician offices, urgent care centers, ambulatory care sites, emergency medical technicians, dialysis centers, home health, federal and state governments and large enterprises, such as group practices, and integrated delivery networks, among other providers across a wide range of specialties.

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

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

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

including software and other value-added services

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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.

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 approach 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

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.

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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 pharmacological treatments, and expanded third-party insurance coverage, partially offset by the effects of unemployment on insurance coverage. In addition, the physician market continues to benefit from the shift of procedures and diagnostic testing from acute care settings to alternate-care sites, particularly physicians' offices.

According to the U.S. Census Bureau's International Database, between 2024 and 2034, the 45 and older population is expected to grow by approximately 11%. Between 2024 and 2044, this age group is expected to grow by approximately 20%. This compares with expected total U.S. population growth rates of approximately 6% between 2024 and 2034 and approximately 11% between 2024 and 2044.

According to the U.S. Census Bureau's International Database, in 2024 there are approximately seven million Americans aged 85 years or older, the segment of the population most in need of long-term care and elder-care services. By the year 2050, that number is projected to nearly triple to approximately 19 million. The population aged 65 to 84 years is projected to increase by approximately 20% during the same period.

As a result of these market dynamics, annual expenditures for health care services continue to increase in the United States. We believe that demand for our products and services will grow while continuing to be impacted by current and future operating, economic, and industry conditions. The Centers for Medicare and Medicaid Services ("CMS") published "National Health Expenditure Data" indicating that total national health care spending reached approximately $4.5 trillion in 2022, or 17.3% 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 $7.2 trillion $7.7 trillion by 2031, 2032, or 19.6% 19.7% of the nation's projected gross domestic product.

Government

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

Certain of our businesses involve pharmaceuticals and/or medical devices, including in vitro diagnostic devices, that are paid for by third parties and must operate in compliance with a variety of burdensome and complex coding, billing and record-keeping requirements in order to substantiate claims for payment under federal, state and commercial healthcare reimbursement programs.

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.

Certain of our businesses are subject to various additional federal, state, local and foreign laws and regulations, including with respect to the sale, transportation, importation, storage, handling and disposal of hazardous or potentially hazardous substances; “forever chemicals” such as per-and polyfluoroalkyl substances; amalgam bans; pricing disclosures; supply chain transparency around labor practices; and safe working conditions. In addition, activities to control medical costs, including laws and regulations lowering reimbursement rates for pharmaceuticals, medical devices, medical supplies and/or medical treatments or services, are ongoing. CMS recently released the 2024 durable medical equipment, prosthetics, orthotics and supplies (“DMEPOS”) reimbursement schedule, which, effective January 1, 2024, reduced the DMEPOS reimbursement rates for non-

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