HENRY SCHEIN INC
Form 10-Q
May 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

or

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

For the transition period from ____________ to ____________

Commission File Number: 0-27078

HENRY SCHEIN, INC.

(Exact name of registrant as specified in its charter)

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

135 Duryea Road

Melville, New York

(Address of principal executive offices)

11747

(Zip Code)

(631) 843-5500

(Registrant's telephone number, including area code)

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 X No __

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

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

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

7(a)(2)(B) of the Securities Act.

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

Yes ___

No X

As of May 2, 2018, there were 154,025,003 shares of the registrant's common stock outstanding.

HENRY SCHEIN, INC.
INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

HENRY SCHEIN, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

ASSETS
Current assets:
Cash and cash equivalents ....
Accounts receivable, net of reserves of $57,351 and $53,832 ....
Inventories, net ....

Prepaid expenses and other ....
Total current assets ....
Property and equipment, net ....
Goodwill ....
Other intangibles, net ....
Investments and other ....
Total assets ....

LIABILITIES AND STOCKHOLDERS' EQUITY
Current liabilities:
Accounts payable ....
Bank credit lines ....

Current maturities of long-term debt ....
Accrued expenses:
Payroll and related ....
Taxes ....
Other ....
Total current liabilities ....

Long-term debt ....

Deferred income taxes ....

Other liabilities ....

Total liabilities ....

Redeemable noncontrolling interests ....

Commitments and contingencies ....

Stockholders' equity:

Preferred stock, $.01 par value, 1,000,000 shares authorized, none outstanding ....

Common stock, $.01 par value, 240,000,000 shares authorized, 154,025,003 outstanding on March 31, 2018 and 153,690,146 outstanding on December 30, 2017 ....

Retained earnings ....

Accumulated other comprehensive loss ....

Total Henry Schein, Inc. stockholders' equity ....

Noncontrolling interests ....

Total stockholders' equity ....

Total liabilities, redeemable noncontrolling interests and stockholders' equity...

See accompanying notes.

3

Table of Contents

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

	Three Months Ended March 31, 2018	Three Months Ended April 1, 2017
Net sales	$3,220,439	$2,922,948
Cost of sales	2,324,847	2,100,028
Gross profit	895,592	822,920
Operating expenses:		
Selling, general and administrative	685,688	628,952
Restructuring costs	3,762	-
Operating income	206,142	193,968
Other income (expense):		
Interest income	5,158	4,304
Interest expense	(17,538)	(11,430)
Other, net	(338)	(45)
Income before taxes and equity in earnings of affiliates	193,424	186,797
Income taxes	(47,764)	(38,630)
Equity in earnings of affiliates	2,971	2,086

Net income	148,631	150,253
Less: Net income attributable to noncontrolling interests	(8,413)	(9,505)
Net income attributable to Henry Schein, Inc.	$ 140,218	$ 140,748
Earnings per share attributable to Henry Schein, Inc.:		
Basic	$ 0.92	$ 0.89
Diluted	$ 0.91	$ 0.88
Weighted-average common shares outstanding:		
Basic	153,106	157,715
Diluted	154,130	159,758

See accompanying notes.

4

Table of Contents

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

Net income ....

Other comprehensive income, net of tax:
Foreign currency translation gain...

Unrealized loss from foreign currency hedging activities ....

Pension adjustment gain (loss)..

Other comprehensive income, net of tax ....
Comprehensive income ....
Comprehensive income attributable to noncontrolling interests:
Net income ....
Foreign currency translation gain ....
Comprehensive income attributable to noncontrolling interests ....

Comprehensive income attributable to Henry Schein, Inc.
....
See accompanying notes.

5

Table of Contents

HENRY SCHEIN, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, except share and per share data)

(unaudited)

Balance, December 30, 2017 ....
Cumulative impact of adopting new accounting standards (Note 2)..
Net income (excluding $8,324 attributable to Redeemable noncontrolling interests) ....
Foreign currency translation gain (excluding $897 attributable to Redeemable noncontrolling interests) ....
Unrealized loss from foreign currency hedging activities, net of tax benefit of $182...
Pension adjustment loss, including tax benefit of $0..
Dividends paid ....
Other adjustments ....
Change in fair value of redeemable securities ....
Initial noncontrolling interests and adjustments related to business acquisitions...
Stock issued upon exercise of stock options ....
Stock-based compensation expense ....
Shares withheld for payroll taxes ....
Settlement of stock-based compensation awards
Deferred tax benefit arising from acquisition of noncontrolling interest in partnership...
Transfer of charges in excess of capital..
Balance, March 31, 2018 ....
See accompanying notes.

6

Table of Contents

HENRY SCHEIN, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

Cash flows from operating activities:
Net income ....
Adjustments to reconcile net income to net cash used in operating activities:
Depreciation and amortization ....
Stock-based compensation expense ....
Provision for losses on trade and other accounts receivable ....
Provision for deferred income taxes ....

Equity in earnings of affiliates ....
Distributions from equity affiliates ....

Changes in unrecognized tax benefits ....

Other ....
Changes in operating assets and liabilities, net of acquisitions:
Accounts receivable ....
Inventories ....
Other current assets ....
Accounts payable and accrued expenses ....
Net cash used in operating activities ....

Cash flows from investing activities:
Purchases of fixed assets ....

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

Other ....

Net cash used in investing activities ....

Cash flows from financing activities:
Proceeds from bank borrowings ....
Proceeds from issuance of debt ....
Debt issuance costs ....

Principal payments for long-term debt ....
Proceeds from issuance of stock upon exercise of stock options ....
Payments for repurchases of common stock ....
Payments for taxes related to shares withheld for employee taxes..
Distributions to noncontrolling stockholders ....
Acquisitions of noncontrolling interests in subsidiaries ....
Net cash provided by financing activities ....

Effect of exchange rate changes on cash and cash equivalents ....
Net change in cash and cash equivalents ....
Cash and cash equivalents, beginning of period ....
Cash and cash equivalents, end of period ....

See accompanying notes.

7

Table of Contents

HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(**unaudited**)

Note 1 – Basis of Presentation

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

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

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

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results to be expected for any other interim period or for the year ending December 29, 2018.

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

Note 2 – Accounting Pronouncements Adopted and Critical Accounting Policies and Estimates

Accounting Pronouncements Adopted

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

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

Software Sales

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

Table of Contents

HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(**unaudited**)

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

Sales Commissions

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

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

	Three M March 3
	As
Balance Sheet	Repor
Assets:	
Prepaid expenses and other	$430,11
Investments and other	449,73
Liabilities:	
Accrued Expenses -Taxes..	$214,37
Accrued Expenses - Other	418,16
Deferred Income Taxes	54,453
Other Liabilities (Long-term)	421,68
Stockholders' equity:	
Retained earnings	$2,998,

Statement of Income	
Revenues:	
Dental ...	
Animal Health ...	
Medical ...	
Total healthcare distribution ...	
Technology and value-added services ...	
Total revenues ...	
Costs and expenses:	
Cost of sales ...	
Selling, general and administrative ...	
Income taxes...	
...	
Net Income ...	

Additional information related to Topic 606 can be found below in “Critical Accounting Policies and Estimates” as well as in Note 3 – Revenue from Contracts with Customers.

In October 2016, the FASB issued ASU No. 2016-16, “Income Taxes, Intra-Entity Transfers of Assets

9

Table of Contents

HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(**unaudited**)

Other Than Inventory" ("Topic 740"). Topic 740 requires companies to recognize the income tax effects of intercompany sales and transfers of assets other than inventory in the period which the transfer occurs. Previously, companies were required to defer the income tax effects on intercompany transfer of assets until the asset has been sold to an outside party. On December 31, 2017, we adopted the guidance, which is effective for annual periods and related interim periods beginning after December 15, 2017 on a modified retrospective basis. As a result of the adoption of Topic 740, we have recorded an immaterial adjustment to the opening balance of retained earnings and a reduction to prepaid assets.

In May 2017, the FASB issued ASU No. 2017-09, "Compensation-Stock Compensation (Topic 718), Scope of Modification Accounting". ASU No. 2017-09 provides guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting. ASU 2017-09 requires modification accounting if the fair value, vesting conditions, or equity or liability classification of the award is not the same immediately before and after a change to the terms and conditions of the award. ASU 2017-09 was adopted on a prospective basis as of December 31, 2017 and did not have a material impact on the consolidated financial statements or disclosures as of March 31, 2018.

The cumulative effect of the changes made to our consolidated balance sheet as of December 31, 2017 related to Topic 606 and Topic 740 were as follows:

	Balanc Decem 2017
Assets:	
Prepaid expenses and other	$454,75
Investments and other	432,00
Liabilities:	
Accrued Expenses - Taxes	$188,87
Accrued Expenses - Other	455,78

Deferred Income Taxes	50,431
Other Liabilities (Long-term)	420,28
Stockholders' equity:	
Retained earnings	$2,940,

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 30, 2017, except as follows:

Revenue Recognition

On December 31, 2017, we adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of the adoption date. Results for reporting periods beginning after December 30, 2017 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for those periods. Our revenue recognition accounting policies applied prior to adoption of Topic 606 are outlined in the financial statements in the 2017 Form 10-K. The disclosures included herein reflect our accounting policies under Topic 606.

We generate revenue from the sale of dental, animal health and medical consumable products, as well as equipment, software products and services and other sources. Provisions for discounts, rebates to customers, customer returns and other contra revenue adjustments are included in the transaction price at contract inception

10

Table of Contents

HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(**unaudited**)

by estimating the most-likely-amount based
upon historical data and estimates and are provided for in the period in which the related sales are recognized.

Revenue derived from the sale of consumable products is recognized at a point in time when control transfers to the customer.Such sales typically entail high-volume, low-dollar orders shipped using third-party common carriers. We believe tha control has transferred to the customer because we have no post-shipment obligations and this is when legal title and risks and rewards of ownership transfer to the customer and the point at which we have an enforceable right to payment.

Revenue derived from the sale of equipment is recognized when control transfers to the customer. This occurs when the equipment is delivered.
Such sales typically entail scheduled deliveries of large equipment primarily by equipment service technicians. Some equipmer
Our product generally carries standard warranty terms provided by the manufacturer, however, in instances where we provide warranty labor services, the warranty costs are accrued in accordance with ASC 460 “Guarantees”.

Revenue derived from the sale of software products is recognized when products are shipped to customers or made available electronically. Such
software is generally installed by customers and does not require extensive training due to the nature of its design.Revenue derived from post-contract customer support for software, including annual support and/or training is generally recognized over time using time elapsed as the input method that best depicts the transfer of control to the customer.

Revenue derived from other sources including freight charges, equipment repairs and financial services is recognized when the related product revenue is recognized or when the services are provided. We apply the practical expedient to treat shipping and handling activities performed after the customer obtains control as fulfillment activities, rather than a separate performance obligation in the contract.

Sales, value add and other taxes we collect concurrent with revenue-producing activities are excluded from revenue.

Certain of our revenue is derived from bundled arrangements that include multiple distinct performance obligations which are accounted for separately. The related revenue is recognized as follows. When we sell software products together with related services (i.e., training and technical support) we allocate revenue to software using the residual method, using an estimate of the standalone selling price to estimate the fair value of the undelivered elements. There are no cases where revenue is deferred due to a lack of a standalone selling price. Bundled arrangements that include elements that are not considered software consist primarily of equipment and the related installation service. We allocate revenue for such arrangements based on the relative selling prices of the goods or services. If an observable selling price is not available (i.e., we do not sell the goods or services separately), we use one of the following techniques to estimate the standalone selling price: adjusted market approach, cost-plus approach or the residual method. There is no specific hierarchy for the use of these methods, but the estimated selling price reflects our best estimate of what the selling prices of each deliverable would be if it were sold regularly on a standalone basis taking into consideration the cost structure of our business, technical skill required, customer location and other market conditions.

Accounts Receivable

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects our best estimate of the amounts that will not be collected. In addition to reviewing delinquent accounts receivable, we consider many factors in estimating our reserve, including historical data, experience, customer types, credit

HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(**unaudited**)

worthiness and economic trends. From time to time, we adjust our assumptions for anticipated changes in any of these or other factors expected to affect collectability.

Contract Assets

Contract assets include amounts related to any conditional right to consideration for work completed but not billed as of the reporting date and generally represent amounts owed to us by customers, but not yet billed. Contract assets are transferred to accounts receivable when the right becomes unconditional. Current contract assets are included in Prepaid expenses and other and the non-current contract assets are included in Investments and other within our consolidated balance sheet.

Contract Liabilities

Contract liabilities are comprised of advance payments and deferred revenue amounts. Contract liabilities are transferred to revenue once the performance obligation has been satisfied. Current contract liabilities are included in Accrued expenses: Other and the non-current contract liabilities are included in Other liabilities within our consolidated balance sheet.

Deferred Commissions

Sales commissions earned by our sales force that relate to long term arrangements are capitalized as costs to obtain a contract when the costs incurred are incremental and are expected to be recovered. Deferred sales commissions are amortized over the estimated customer relationship period. We apply the practical expedient related to the capitalization of incremental costs of obtaining a contract, and recognize such costs as an expense when incurred if the amortization period of the assets that we would have recognized is one year or less.

Sales Returns

Sales returns are recognized as a reduction of revenue by the amount of expected returns and are recorded as refund liability within current liabilities. We estimate the amount of revenue expected to be reversed to calculate the sales return liability based on historical data for specific products, adjusted as necessary for new products. The allowance for returns is presented gross as a refund liability and we record an inventory asset (and a corresponding adjustment to cost of sales) for any goods or services that we expect to be returned.

Table of Contents

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 the policies discussed in Note 2 - Accounting Pronouncements Adopted and Critical Accounting Policies and Estimates.

Disaggregation of Revenue

The following table disaggregates our revenue by segment and geography:

	Th Ma No Ar
Revenues:	
Health care distribution	
Dental	$9
Animal health	4
Medical	6
Total health care distribution	1
Technology and value-added services	9
Total revenues	$2

Contract Balances

Contract balances represent amounts presented in our consolidated balance sheet when either we have transferred goods or services to the customer or the customer has paid consideration to us under the contract. These contract balances include accounts receivable, contract assets and contract liabilities.

The contract assets primarily relate to our rights to consideration for work completed but not billed at the reporting date on contracts. The contract assets are transferred to receivables when the rights become unconditional. The contract assets primarily relate to our bundled arrangements for the sale of equipment and consumables and sales of term software licenses. Current and non-current contract asset balances as of December 31, 2017 and March 31, 2018 are not material.

The contract liabilities primarily relate to advance payments from customers and upfront payments for service arrangements provided over time. At December 31, 2017, the current portion of contract liabilities of $85.7 million was reported in the Accrued expenses: Other, and $5.2 million related to non-current contract liabilities were reported in Other liabilities. During the three months ended March 31, 2018, we recognized $47.8 million of the amount previously deferred at December 31, 2017. At March 31, 2018, the current and non-current portion of contract liabilities were $81.0 million and $5.2 million, respectively.

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, animal health 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 animal health group serves animal health practices and clinics. Our global medical group serves office-based medical practitioners, ambulatory surgery centers, other alternate-care settings and other institutions. Our global dental, animal health and medical groups serve practitioners in 34 countries worldwide.

Table of Contents

HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(**unaudited**)

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 and animal health clinics. Our value-added practice solutions include financial services on a non-recourse basis, e-services, continuing education services for practitioners, consulting and other services.

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

Net Sales:
Health care distribution (1):
Dental
Animal health
Medical
Total health care distribution
Technology and value-added services (2)
Total

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

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

Operating Income:

Health care distribution ....

Technology and value-added services ....

Total ....

14

Table of Contents

HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(**unaudited**)

Note 5 – Debt

Bank Credit Lines

On April 18, 2017, we entered into a new $750 million revolving credit agreement (the “Credit Agreement”). This facility, which matures in April 2022, replaced our $500 million revolving credit facility, which was scheduled to mature in September 2019. 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. The Credit Agreement provides, among other things, that we are required to maintain maximum leverage ratios, and contains customary representations, warranties and affirmative covenants. The Credit Agreement also contains customary negative covenants, subject to negotiated exceptions on liens, indebtedness, significant corporate changes (including mergers), dispositions and certain restrictive agreements. As of March 31, 2018 and December 30, 2017, the borrowings on this revolving credit facility were $525.0 million and $320.0 million, respectively. As of March 31, 2018 and December 30, 2017, there were $11.1 million and $11.3 million of letters of credit, respectively, provided to third parties under the credit facility.

As of March 31, 2018 and December 30, 2017, we had various other short-term bank credit lines available, of which $429.1 million and $421.7 million, respectively, were outstanding. At March 31, 2018 and December 30, 2017, borrowings under all of our credit lines had a weighted average interest rate of 2.59% and 2.27%, respectively.

Private Placement Facilities

On September 15, 2017, we increased our available private placement facilities with three insurance companies to a total facility amount of $1 billion, and extended the expiration date to September 15, 2020. These facilities are available on an uncommitted basis at fixed rate economic terms to be agreed upon at the time of issuance, from time to time through September 15, 2020. 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.

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 31, 2018 are presented in the following table (in thousands):

Date of Borrowing	Amount of Borrowing Outstanding	Borrowing Rate		Due Date
September 2, 2010	$ 100,000	3.79	%	September 2, 2020
January 20, 2012	50,000	3.45		January 20, 2024
January 20, 2012 (1)	28,571	3.09		January 20, 2022
December 24, 2012	50,000	3.00		December 24, 2024
June 2, 2014	100,000	3.19		June 2, 2021
June 16, 2017	100,000	3.42		June 16, 2027
September 15, 2017	100,000	3.52		September 15, 2029
January 2, 2018	100,000	3.32		January 2, 2028
Less: Deferred debt issuance costs	(408)			
	$ 628,163			

(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. On June 1, 2016, we extended the expiration date of this facility agreement to April 29, 2019 and increased the purchase limit under the facility from $300 million to $350 million. On July 6, 2017, we extended the expiration date of this facility agreement to April 29, 2020. The borrowings outstanding under this securitization facility were $350.0 million as of both March 31, 2018 and December 30, 2017, respectively. At March 31, 2018, the interest rate on borrowings under this facility was based on the asset-backed commercial paper rate of 197 basis points plus 75 basis points, for a combined rate of 2.72%. At December 30, 2017, the interest rate on borrowings under this facility was based on the asset-backed commercial paper rate of 153 basis points plus 75 basis points, for a combined rate of 2.28%.

We are required to pay a commitment fee of 30 basis points on the daily balance of the unused portion of the facility if our usage is greater than or equal to 50% of the facility limit or a commitment fee of 35 basis points on the daily balance of the unused portion of the facility if our usage is less than 50% of the facility limit.

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

Table of Contents

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:

	Ma 20
Private placement facilities	$6
U.S. trade accounts receivable securitization	3
Various collateralized and uncollateralized loans payable with interest in varying installments through 2022 at interest rates ranging from 2.56% to 4.38% at March 31, 2018 and ranging from 2.56% to 12.90% at December 30, 2017	3
Capital lease obligations payable through 2029 with interest rates ranging from 0.07% to 19.79% at March 31, 2018 and ranging from 0.84% to 19.79% at December 30, 2017	4
Total	1
Less current maturities	(
Total long-term debt	$1

Note 6 – 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. 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 31, 2018 and the year ended December 30, 2017 are presented in the following table:

	Ma 20
Balance, beginning of period	$8
Decrease in redeemable noncontrolling interests due to redemptions	(2
Increase in redeemable noncontrolling interests due to business acquisitions..	1
Net income attributable to redeemable noncontrolling interests	8
Dividends declared	(
Effect of foreign currency translation gain attributable to redeemable noncontrolling interests	8
Change in fair value of redeemable securities	8
Balance, end of period	$6

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.

17

Table of Contents

HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(**unaudited**)

Note 7 – 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. Our comprehensive income is primarily comprised of net income, foreign currency translation gain (loss), unrealized gain (loss) on foreign currency hedging activities, unrealized investment loss and pension adjustment gain (loss).

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

	March 31, 2018	D 30 20
Attributable to Redeemable noncontrolling interests:		
Foreign currency translation adjustment	$(4,667)	$(
Attributable to noncontrolling interests:		
Foreign currency translation adjustment	$762	$
Attributable to Henry Schein, Inc.:		
Foreign currency translation loss	$(79,335)	$(
Unrealized loss from foreign currency hedging activities	(1,684)	(
Unrealized investment loss	(3)	(
Pension adjustment loss	(16,866)	(
Accumulated other comprehensive loss	$(97,888)	$(
Total Accumulated other comprehensive loss	$(101,793)	$(

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

Net income	
Foreign currency translation gain	
Tax effect	
Foreign currency translation gain	
Unrealized loss from foreign currency hedging activities	
Tax effect	
Unrealized loss from foreign currency hedging activities	
Pension adjustment gain (loss)...	
Tax effect	
Pension adjustment gain (loss)...	
Comprehensive income	

18

Table of Contents

HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(**unaudited**)

During the three months ended March 31, 2018 and April 1, 2017, we recognized as a component of our comprehensive income, a foreign currency translation gain of $34.2 million and $41.5 million, respectively, due to changes in foreign exchange rates from the beginning of the period to the end of the period. Our financial statements are denominated in the U.S. Dollar currency. Fluctuations in the value of foreign currencies as compared to the U.S. Dollar may have a significant impact on our comprehensive income. The foreign currency translation gain (loss) during the three months ended March 31, 2018 and three months ended April 1, 2017 was impacted by changes in foreign currency exchange rates as follows:

Currency	Fo Cu Tra Ga (Lo for Th Mo En Ma 31, 20
Euro	2
British Pound	1
Australian Dollar	(3
Canadian Dollar	(3
Polish Zloty	7
Swiss Franc	1
Brazilian Real............	(6
All other currencies	4

Total	$3

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

	Three M Ended March 31, 2018
Comprehensive income attributable to Henry Schein, Inc.	$172,39
Comprehensive income attributable to noncontrolling interests	312
Comprehensive income attributable to Redeemable noncontrolling interests	9,221
Comprehensive income	$181,93

Note 8 – Fair Value Measurements

ASC Topic 820 "Fair Value Measurements and Disclosures" ("ASC Topic 820") provides a framework for measuring fair value in generally accepted accounting principles.

ASC Topic 820 defines fair value 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. ASC Topic 820 establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs).

Table of Contents

HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(**unaudited**)

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 under ASC Topic 820 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 valuation methodologies that we used to measure different financial instruments at fair value.

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.

Debt

The fair value of our debt, including bank credit lines, as of March 31, 2018 and December 30, 2017 was estimated at $1,968.8 million and $1,666.1 million, respectively. Factors that we considered when estimating the fair value of our debt include market conditions, prepayment and make-whole provisions, liquidity levels in the private placement market, variability in pricing from multiple lenders and term of debt.

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 intercompany loans and certain forecasted inventory purchase commitments with suppliers.

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.

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 based on third-party valuations. The primary factor affecting the future value of redeemable noncontrolling interests is expected earnings and, if such earnings are not achieved, the value of the redeemable noncontrolling interests might be impacted. The noncontrolling interests subject to put options are adjusted to their estimated redemption amounts 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. The values for Redeemable noncontrolling interests are classified within Level 3 of the fair value hierarchy. The details of the changes in Redeemable noncontrolling interests are presented in Note 6.

Table of Contents

HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(**unaudited**)

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 31, 2018 and December 30, 2017:

	M
Assets:	
Derivative contracts	$
Total assets	$
Liabilities:	
Derivative contracts	$
Total liabilities	$
Redeemable noncontrolling interests	$

*CS

	D
Assets:	