

HENRY SCHEIN INC
Form 10-K
February 21, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 30, 2017

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

Commission file number 0-27078

HENRY SCHEIN, INC.

(Exact name of registrant as specified in its charter)

| | |
|--------------------------------------|--|
| DELAWARE | 135 Duryea Road |
| (State or other jurisdiction of | Melville, New York |
| incorporation or organization) | (Address of principal executive offices) |
| 11-3136595 | 11747 |
| (I.R.S. Employer Identification No.) | (Zip Code) |

(631) 843-5500

(Registrant's telephone number, including area code)

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

| <u>Title of each class</u> | <u>Name of each exchange on which registered</u> |
|---|--|
| Common Stock, par value \$.01 per share | The NASDAQ Global Select Market |

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES: NO:

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES: NO:

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES: NO:

Indicate by check mark whether the registrant has submitted electronically 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: NO:

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10 K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or 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.

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Large accelerated filer: Accelerated filer: Non-accelerated filer:
Smaller reporting company: Emerging growth company:

(Do not check if a smaller reporting company)

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

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

YES: NO:

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant, computed by reference to the closing sales price as quoted on the NASDAQ Global Select Market on July 1, 2017, was approximately \$14,360,474,000.

As of February 15, 2018, there were 153,694,200 shares of registrant's Common Stock, par value \$.01 per share, outstanding.

Documents Incorporated by Reference:

Portions of the Registrant's definitive proxy statement to be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year (December 30, 2017) are incorporated by reference in Part III hereof.

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PART I

ITEM 1. Business

General

We believe we are the world's largest provider of health care products and services primarily to office-based dental, animal health and medical practitioners. We serve more than 1 million customers worldwide including dental practitioners and laboratories, animal health clinics and physician practices, as well as government, institutional health care clinics and other alternate care clinics. We believe that we have a strong brand identity due to our more than 85 years of experience distributing health care products.

We are headquartered in Melville, New York, employ more than 22,000 people (of which more than 11,400 are based outside the United States) and have operations or affiliates in 34 countries, including the United States, Australia, Austria, Belgium, Brazil, Canada, Chile, China, the Czech Republic, Denmark, France, Germany, Hong Kong SAR, Ireland, Israel, Italy, Japan, Liechtenstein, Luxembourg, Malaysia, the Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Slovakia, South Africa, Spain, Sweden, Switzerland, Thailand, United Arab Emirates and the United Kingdom.

We offer a comprehensive selection of products and services and value-added solutions for operating efficient practices and delivering high quality care. We operate through a centralized and automated distribution network with a selection of more than 120,000 branded products and Henry Schein private brand products in stock, as well as more than 180,000 additional products available as special order items. We also offer our customers exclusive, innovative technology solutions, including practice management software and e-commerce solutions, as well as a broad range of financial services.

We have established over 4.5 million square feet of space in 63 strategically located distribution centers around the world to enable us to better serve our customers and increase our operating efficiency. This infrastructure, together with broad product and service offerings at competitive prices, and a strong commitment to customer service, enables us to be a single source of supply for our customers' needs. Our infrastructure also allows us to provide convenient ordering and rapid, accurate and complete order fulfillment.

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

The health care distribution reportable segment aggregates our global dental, 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 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, practice technology, network and hardware services, as well as continuing education services for practitioners.

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Industry

The health care products distribution industry, as it relates to office-based health care practitioners, is fragmented and diverse. This industry, which encompasses the dental, animal health and medical markets, was estimated to produce revenues of approximately \$45 billion in 2017 in the global markets. 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 health care products distribution industry continues to experience growth due to the aging population, increased health care awareness, the proliferation of medical technology and testing, new pharmacology treatments and expanded third-party insurance coverage, partially offset by the effects of unemployment on insurance coverage. In addition, the physician market continues to benefit from the shift of procedures and diagnostic testing from acute care settings to alternate-care sites, particularly physicians' offices.

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.

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.

Competition

The distribution and manufacture of health care supplies and equipment is highly competitive. Many of the health care distribution products we sell are available to our customers from a number of suppliers. In addition, our competitors could obtain exclusive rights from manufacturers to market particular products. Manufacturers also could seek to sell directly to end-users, and thereby eliminate or reduce our role and that of other distributors.

In North America, we compete with other distributors, as well as several manufacturers, of dental, animal health and medical products, primarily on the basis of price, breadth of product line, customer service and value-added products and services. In the dental market, our primary competitors are the Patterson Dental division of Patterson Companies, Inc. and Benco Dental Supply Company. In addition, we compete against a number of other distributors that operate on a national, regional and local level. In the animal health market, our primary competitors are the MWI Animal Health division of AmerisourceBergen and the Patterson Veterinary division of Patterson Companies, Inc. Our primary competitors in the medical market are McKesson Corporation and Medline Industries, Inc., which are national distributors. We also compete against a number of regional and local animal health and medical distributors, as well as a number of manufacturers that sell directly to veterinarians and physicians. With regard to our dental practice management software, we compete against numerous companies, including Carestream Health, Inc. and the Patterson Dental division of Patterson Companies, Inc. In the animal health practice management market, our primary competitors are IDEXX Laboratories, Inc. and the Patterson Veterinary division of Patterson Companies, Inc. The medical practice management and electronic medical records

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market is very fragmented and we compete with numerous companies such as the NextGen division of Quality Systems, Inc., eClinicalWorks and Allscripts Healthcare Solutions, Inc.

We also face significant competition internationally, where we compete on the basis of price and customer service against several large competitors, including the GACD Group, Pluradent AG & Co., Lifco AB, Planmeca Oy, Billerica Dental Supply Co. Ltd., National Veterinary Services Limited (Patterson Veterinary division of Patterson Companies, Inc.), Centaur Services Limited (MWI Animal Health division of AmerisourceBergen) and Alcyon SA, as well as a large number of dental, animal health and medical product distributors and manufacturers in Australia, Austria, Belgium, Brazil, Canada, Chile, China, the Czech Republic, Denmark, France, Germany, Hong Kong SAR, Ireland, Israel, Italy, Japan, Liechtenstein, Luxembourg, Malaysia, the Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Slovakia, South Africa, Spain, Sweden, Switzerland, Thailand, United Arab Emirates and the United Kingdom.

Significant price reductions by our competitors could result in a similar reduction in our prices. Any of these competitive pressures may materially adversely affect our operating results.

Competitive Strengths

We have more than 85 years of experience in distributing products to health care practitioners resulting in strong awareness of the Henry Schein® brand. Our competitive strengths include:

A focus on meeting our customers' unique needs. We are committed to providing customized solutions to our customers that are driven by our understanding of the market and reflect the technology-driven products and services best suited for their practice needs.

Direct sales and marketing expertise. Our sales and marketing efforts are designed to establish and solidify customer relationships through personal visits by field sales representatives, frequent direct marketing and telesales contact, emphasizing our broad product lines, including exclusive distribution agreements, competitive prices and ease of order placement. The key elements of our direct sales and marketing efforts are:

- *Field sales consultants.* We have over 4,200 field sales consultants, including equipment sales specialists, covering major North American, European and other international markets. These consultants complement our direct marketing and telesales efforts and enable us to better market, service and support the sale of more sophisticated products and equipment.

- *Direct marketing.* During 2017, we distributed approximately 35 million pieces of direct marketing material, including catalogs, flyers, order stuffers and other promotional materials to existing and potential office-based health care customers.
- *Telesales.* We support our direct marketing effort with approximately 2,300 inbound and outbound telesales representatives, who facilitate order processing, generate new sales through direct and frequent contact with customers and stay abreast of market developments and the hundreds of new products, services and technologies introduced each year to educate practice personnel.
- *Electronic commerce solutions.* We provide our customers and sales teams with innovative and competitive Internet, PC and mobile e-commerce solutions.
- *Social media.* Our operating entities and employees engage our customers and supplier partners through various social media platforms.

Broad product and service offerings at competitive prices. We offer a broad range of products and services to our customers, at competitive prices, in the following categories:

- *Consumable supplies and equipment.* We offer over 120,000 Stock Keeping Units, or SKUs, to our customers. Of the SKUs offered, approximately 49,000 are offered to our dental customers, approximately 14,000 to our animal health customers and approximately 48,000 to our medical customers. We offer over 180,000 additional SKUs to our customers in the form of special order items.

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- *Technology and other value-added products and services.* We sell practice management software systems to our dental, animal health and medical customers. Our practice management solutions provide practitioners with electronic medical records, patient treatment history, billing, accounts receivable analyses and management, appointment calendars, electronic claims processing and word processing programs. We have over 700 technical representatives supporting customers using our practice management solutions. As of December 30, 2017, we had an active user base of almost 97,000 practices, including users of Dentrrix[®] Dental Systems, Dentrrix[®] Enterprise, Dentrrix[®] Dental Vision[™], Dentrrix Ascend[®], Easy Dental[®], Oasis[™], Evolution[®] and EXACT[®], Gesden[®], Julie[®]Software, Power Practice[®] Px, AxiUm[™], EndoVision[®], PerioVision[®], OMSVision[®] and Viive[®] for dental practices; Advantage⁺[™], AVImark[®], DVM Manager[®], Infinity[™], Triple Crown[®], Vetstreet[®], VisionVPM[™], Robovet[®], and RxWorks[®], and eVetPractice[™] for animal health practices; and MicroMD[®] for physician practices.
 - *Repair services.* We have over 200 equipment sales and service centers worldwide that provide a variety of repair, installation and technical services for our health care customers. Our over 2,000 technicians provide installation and repair services for: dental handpieces; dental, animal health and medical small equipment; table top sterilizers; and large dental equipment.
 - *Financial services.* We offer our customers solutions in operating their practices more efficiently by providing access to a number of financial services and products (including non-recourse financing for equipment, technology and software products; non-recourse patient financing; collection services and credit card processing) at rates that we believe are generally lower than what our customers would be able to secure independently. We also provide consulting services, dental practice valuation and brokerage services.
- Commitment to superior customer service.* We maintain a strong commitment to providing superior customer service. We frequently monitor our customer service through customer surveys, focus groups and statistical reports. Our customer service policy primarily focuses on:
- *Exceptional order fulfillment.* We ship an average of approximately 190,000 cartons daily. Approximately 99% of items ordered are shipped without back ordering and are shipped on the same business day the order is received.
 - *Streamlined ordering process.* Customers may place orders 24 hours a day, 7 days a week by mail, fax, telephone, e-mail, Internet and by using our computerized order entry systems.
- Integrated management information systems.* Our information systems generally allow for centralized management of key functions, including accounts receivable, inventory, accounts payable, payroll, purchasing, sales and order fulfillment. These systems allow us to manage our growth, deliver superior customer service, properly target customers, manage financial performance and monitor daily operational statistics.

Cost-effective purchasing. We believe that cost-effective purchasing is a key element to maintaining and enhancing our position as a competitive-pricing provider of health care products. We continuously evaluate our purchase requirements and suppliers' offerings and prices in order to obtain products at the lowest possible cost. In 2017, our top 10 health care distribution suppliers and our single largest supplier accounted for approximately 34% and 5%, respectively, of our aggregate purchases.

Efficient distribution. We distribute our products from our strategically located distribution centers. We strive to maintain optimal inventory levels in order to satisfy customer demand for prompt delivery and complete order fulfillment. These inventory levels are managed on a daily basis with the aid of our management information systems. Once an order is entered, it is electronically transmitted to the distribution center nearest the customer's location and a packing slip for the entire order is printed for order fulfillment.

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Products

The following table sets forth the percentage of consolidated net sales by principal categories of products offered through our health care distribution and technology reportable segments:

| | |
|---|--------------|
| | 2017 |
| Health care distribution: | |
| Dental products (1) | 48.5 |
| | |
| Animal health products (2) | 27.9 |
| | |
| Medical products (3) | 20.1 |
| | |
| Total health care distribution | 96.5 |
| | |
| Technology: | |
| Software and related products and other value-added products (4) | 3.5 |
| Total | 100.0 |
| | |

(1) Includes infection-control products, handpieces, preventatives, impression materials, composites, anesthetics, teeth, dental gypsum, acrylics, articulators, abrasives, dental chairs, delivery units and lights, X-ray supplies and equipment, equipment repair and high-tech and digital restoration equipment.

(2) Includes branded and generic pharmaceuticals, surgical and consumable products and services and equipment.

(3) Includes branded and generic pharmaceuticals, vaccines, surgical products, diagnostic tests, infection-control products, X-ray products, equipment and vitamins.

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

Business Strategy

Competition

Our objective is to continue to expand as a global value-added provider of health care products and services to office-based dental, animal health and medical practitioners. To accomplish this, we will apply our competitive strengths in executing the following strategies:

- *Increase penetration of our existing customer base.* We have over 1 million customers worldwide and we intend to increase sales to our existing customer base and enhance our position as their primary supplier.
- *Increase the number of customers we serve.* This strategy includes increasing the number and productivity of field sales consultants, as well as using our customer database to focus our marketing efforts in all of our operating segments. In the dental business, we provide products and services to traditional dental practices as well as new emerging segments, such as dental service organizations and community health centers. Leveraging our unique assets and capabilities, we offer solutions to address these new markets. In the medical business, we have expanded to serve customers located in settings outside of the traditional office, such as urgent care clinics, retail and occupational health settings. As settings of health care shift, we remain committed to serving these practitioners and providing them with the products and services they need.

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- *Leverage our value-added products and services.* We continue to increase cross-selling efforts for key product lines utilizing a consultative selling process. In the dental business, we have significant cross-selling opportunities between our dental practice management software users and our dental distribution customers. In the animal health business, we have opportunities to cross-sell practice management software and other products. In the medical business, we have opportunities to expand our vaccine, injectables and other pharmaceuticals sales to health care practitioners, as well as cross-selling core products and electronic health record and practice management software. Our strategy extends to providing health systems, integrated delivery networks and other large group and multi-site health care organizations, that include physician clinics, these same value added products and services. As physicians and health systems closely align, we have increased access to opportunities for cross-marketing and selling our product and service portfolios.
- *Pursue strategic acquisitions and joint ventures.* Our acquisition strategy includes acquiring businesses and entering into joint ventures complementary to ours that will provide, among other things, additional sales to be channeled through our existing distribution infrastructure, access to additional product lines and field sales consultants and an opportunity to further expand into new geographic markets.

Markets Served

Demographic trends indicate that our markets are growing, as an aging U.S. population is increasingly using health care services. Between 2017 and 2027, the 45 and older population is expected to grow by approximately 12%. Between 2017 and 2037, this age group is expected to grow by approximately 24%. This compares with expected total U.S. population growth rates of approximately 8% between 2017 and 2027 and approximately 15% between 2017 and 2037.

In the dental industry, there is predicted to be a rise in oral health care expenditures as the 45 and older segment of the population increases. There is increasing demand for new technologies that allow dentists to increase productivity, and this is being driven in the U.S. by lower insurance reimbursement rates. At the same time, there is an expected increase in dental insurance coverage.

We support our dental professionals through the many SKUs that we offer, as well as through important value-added services, including practice management software, electronic claims processing, financial services and continuing education, all designed to help maximize a practitioner's efficiency.

The animal health market, impacted by growing companion pet ownership and care, as well as increased focus on safety and efficiency in livestock production, continues to provide additional growth opportunities for us. We support the animal health practitioners we serve through the distribution of biologicals, pharmaceuticals, supplies and

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equipment and by actively engaging in the development, sale and distribution of veterinary practice management software.

In the medical market, there continues to be a migration of procedures from acute-care settings to physicians' offices, a trend that we believe provides additional opportunities for us. There also is the continuing use of vaccines, injectables and other pharmaceuticals in alternate-care settings. We believe we have established a leading position as a vaccine supplier to the office-based physician practitioner.

Additionally, we are expanding our dental full-service model, our animal health presence and our medical offerings in countries where opportunities exist. Through our "Schein Direct" program, we also have the capability to provide door-to-door air package delivery to practitioners in over 190 countries around the world.

For information on revenues and long-lived assets by geographic area, see Note 15 of "Notes to Consolidated Financial Statements," which is incorporated herein by reference.

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Seasonality and Other Factors Affecting Our Business and Quarterly Results

We experience fluctuations in quarterly earnings. As a result, we may fail to meet or exceed the expectations of securities analysts and investors, which could cause our stock price to decline.

Our business is subject to seasonal and other quarterly fluctuations. Revenues and profitability generally have been higher in the third and fourth quarters due to the timing of sales of seasonal products (including influenza vaccine, equipment and software products), purchasing patterns of office-based health care practitioners and year-end promotions. Revenues and profitability generally have been lower in the first quarter, primarily due to increased sales in the prior two quarters. We expect our historical seasonality of sales to continue in the foreseeable future. Quarterly results may also be materially adversely affected by a variety of other factors, including:

- timing and amount of sales and marketing expenditures;
- timing of pricing changes offered by our suppliers;
- timing of the introduction of new products and services by our suppliers;
- timing of the release of upgrades and enhancements to our technology-related products and services;
- changes in or availability of supplier contracts or rebate programs;
- supplier rebates based upon attaining certain growth goals;
- changes in the way suppliers introduce or deliver products to market;
- costs of developing new applications and services;
- our ability to correctly identify customer needs and preferences and predict future needs and preferences;
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uncertainties regarding potential significant breaches of data security or disruptions of our information technology systems;

- unexpected regulatory actions, or government regulation generally;
- exclusivity requirements with certain suppliers may prohibit us from distributing competitive products manufactured by other suppliers;
- loss of sales representatives;
- costs related to acquisitions and/or integrations of technologies or businesses;
- costs associated with our self-insured medical and dental insurance programs;
- general market and economic conditions, as well as those specific to the health care industry and related industries;
- our success in establishing or maintaining business relationships;
- unexpected difficulties in developing and manufacturing products;
- product demand and availability or recalls by manufacturers;
- exposure to product liability and other claims in the event that the use of the products we sell results in injury;
- increases in shipping costs or service issues with our third-party shippers;
- fluctuations in the value of foreign currencies;

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- restructuring costs;
- the adoption or repeal of legislation;
- changes in accounting principles; and
- litigation or regulatory judgements, expenses or settlements.

Any change in one or more of these or other factors could cause our annual or quarterly financial results to fluctuate. If our financial results do not meet market expectations, our stock price may decline.

Governmental Regulations

Operating, Security and Licensure Standards

Certain of our businesses involve the distribution of pharmaceuticals and medical devices, and in this regard we are subject to various local, state, federal and foreign governmental laws and regulations applicable to the distribution of pharmaceuticals and medical devices. Among the United States federal laws applicable to us are the Controlled Substances Act, the Federal Food, Drug, and Cosmetic Act, as amended (“FDC Act”), and Section 361 of the Public Health Service Act. We are also subject to comparable foreign regulations.

The FDC Act and similar foreign laws generally regulate the introduction, manufacture, advertising, labeling, packaging, storage, handling, reporting, marketing and distribution of, and record keeping for, pharmaceuticals and medical devices shipped in interstate commerce, and states may similarly regulate such activities within the state. Section 361 of the Public Health Service Act, which provides authority to prevent the spread of communicable diseases, serves as the legal basis for the United States Food and Drug Administration’s (“FDA”) regulation of human cells, tissues and cellular and tissue-based products, also known as “HCT/P products.”

The Federal Drug Quality and Security Act of 2013 brought about significant changes with respect to pharmaceutical supply chain requirements and pre-empts state law. Title II of this measure, known as the Drug Supply Chain Security Act (“DSCSA”), is being phased in over ten years, and is intended to build a national electronic, interoperable

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system to identify and trace certain prescription drugs as they are distributed in the United States. The law's track and trace requirements applicable to manufacturers, wholesalers, repackagers and dispensers (e.g., pharmacies) of prescription drugs took effect in January 2015, subject to certain enforcement delays by the FDA, and will continue to be implemented. The DSCSA product tracing requirements replace the former FDA drug pedigree requirements and pre-empt state requirements that are inconsistent with, more stringent than, or in addition to, the DSCSA requirements.

The DSCSA also establishes certain requirements for the licensing and operation of prescription drug wholesalers and third party logistics providers ("3PLs"), and includes the creation of national wholesaler and 3PL licenses in cases where states do not license such entities. The DSCSA requires that wholesalers and 3PLs distribute drugs in accordance with certain standards regarding the recordkeeping, storage and handling of prescription drugs. The DSCSA requires wholesalers and 3PLs to submit annual reports to the FDA, which include information regarding each state where the wholesaler or 3PL is licensed, the name and address of each facility and contact information. According to FDA guidance, states are pre-empted from imposing any licensing requirements that are inconsistent with, less stringent than, directly related to, or covered by the standards established by federal law in this area. Current state licensing requirements will likely remain in effect until the FDA issues new regulations as directed by the DSCSA.

We believe that we are substantially compliant with applicable DSCSA requirements.

The Food and Drug Administration Amendments Act of 2007 and the Food and Drug Administration Safety and Innovation Act of 2012 amended the FDC Act to require the FDA to promulgate regulations to implement a unique device identification ("UDI") system. The FDA is phasing in the implementation of the UDI regulations over seven years, generally beginning with the highest-risk devices (i.e., Class III medical devices) and ending with the lowest-risk devices. The UDI regulations require "labelers" to include unique device identifiers ("UDIs"), with

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a content and format prescribed by the FDA and issued under a system operated by an FDA-accredited issuing agency, on the labels and packages of medical devices, and to directly mark certain devices with UDIs. The UDI regulations also require labelers to submit certain information concerning UDI-labeled devices to the FDA, much of which information is publicly available on an FDA database, the Global Unique Device Identification Database. The UDI regulations provide for certain exceptions, alternatives and time extensions. For example, the UDI regulations include a general exception for Class I devices exempt from the Quality System Regulation (other than record-keeping requirements and complaint files). Regulated labelers include entities such as device manufacturers, repackagers, reproducers and relabelers that cause a device's label to be applied or modified, with the intent that the device will be commercially distributed without any subsequent replacement or modification of the label, and include certain of our businesses.

We believe that we are substantially compliant with applicable UDI requirements.

Under the Controlled Substances Act, as a distributor of controlled substances, we are required to obtain and renew annually registrations for our facilities from the United States Drug Enforcement Administration ("DEA") permitting us to handle controlled substances. We are also subject to other statutory and regulatory requirements relating to the storage, sale, marketing, handling and distribution of such drugs, in accordance with the Controlled Substances Act and its implementing regulations, and these requirements have been subject to heightened enforcement activity in recent times. We are subject to inspection by the DEA.

Certain of our businesses are also required to register for permits and/or licenses with, and comply with operating and security standards of, the DEA, the FDA, the United States Department of Health and Human Services, and various state boards of pharmacy, state health departments and/or comparable state agencies as well as comparable foreign agencies, and certain accrediting bodies depending on the type of operations and location of product distribution, manufacturing or sale. These businesses include those that distribute, manufacture and/or repackage prescription pharmaceuticals and/or medical devices and/or HCT/P products, or own pharmacy operations, or install, maintain or repair equipment. In addition, Section 301 of the National Organ Transplant Act, and a number of comparable state laws, impose civil and/or criminal penalties for the transfer of certain human tissue (for example, human bone products) for valuable consideration, while generally permitting payments for the reasonable costs incurred in procuring, processing, storing and distributing that tissue. We are also subject to foreign government regulation of such products. The DEA, the FDA and state regulatory authorities have broad inspection and enforcement powers, including the ability to suspend or limit the distribution of products by our distribution centers, seize or order the recall of products and impose significant criminal, civil and administrative sanctions for violations of these laws and regulations. Foreign regulations subject us to similar foreign enforcement powers. Furthermore, compliance with legal requirements has required and may in the future require us to institute voluntary recalls of products we sell, which could result in financial losses and potential reputational harm. Our customers are also subject to significant federal, state, local and foreign governmental regulation.

Certain of our businesses are subject to various additional federal, state, local and foreign laws and regulations, including with respect to the sale, transportation, storage, handling and disposal of hazardous or potentially hazardous substances, and safe working conditions.

Certain of our businesses also maintain contracts with governmental agencies and are subject to certain regulatory requirements specific to government contractors.

Antitrust

The U.S. federal government, most U.S. states and many foreign countries have antitrust laws that prohibit certain types of conduct deemed to be anti-competitive. Violations of antitrust laws can result in various sanctions, including criminal and civil penalties. Private plaintiffs also could bring civil lawsuits against us in the United States for alleged antitrust law violations, including claims for treble damages.

Health Care Fraud

Certain of our businesses are subject to federal and state (and similar foreign) health care fraud and abuse, referral and reimbursement laws and regulations with respect to their operations. Some of these laws, referred to as

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“false claims laws,” prohibit the submission or causing the submission of false or fraudulent claims for reimbursement to federal, state and other health care payers and programs. Other laws, referred to as “anti-kickback laws,” prohibit soliciting, offering, receiving or paying remuneration in order to induce the referral of a patient or ordering, purchasing, leasing or arranging for or recommending ordering, purchasing or leasing, of items or services that are paid for by federal, state and other health care payers and programs.

The fraud and abuse laws and regulations have been subject to varying interpretations, as well as heightened enforcement activity over the past few years, and significant enforcement activity has been the result of “relators,” who serve as whistleblowers by filing complaints in the name of the United States (and if applicable, particular states) under federal and state false claims laws. Under the federal False Claims Act relators can be entitled to receive up to 30% of total recoveries. Also violations of the federal False Claims Act can result in treble damages, and, in accordance with a final rule published by the Department of Justice on February 3, 2017, which substantially increased the maximum and minimum civil penalties for False Claims Act violations, the amounts for civil penalties assessed after February 3, 2017, whose associated violations occurred after November 2, 2015, were increased from a minimum per-claim penalty of \$10,781 to \$10,957, and from a maximum per-claim penalty of \$21,563 to \$21,916. Most states have adopted similar state false claims laws, and these state laws have their own penalties which may be in addition to federal False Claims Act penalties. The United States Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act, each enacted in March 2010 (the “Health Care Reform Law”), significantly strengthened the federal False Claims Act and the federal Anti-Kickback Law provisions, which could lead to the possibility of increased whistleblower or relator suits, and among other things made clear that a federal Anti-Kickback Law violation can be a basis for federal False Claims Act liability.

The United States government (among others) has expressed concerns about financial relationships between suppliers on the one hand and physicians and dentists on the other. As a result, we regularly review and revise our marketing practices as necessary to facilitate compliance.

We also are subject to certain United States and foreign laws and regulations concerning the conduct of our foreign operations, including the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, German anti-corruption laws and other anti-bribery laws and laws pertaining to the accuracy of our internal books and records, which have been the focus of increasing enforcement activity globally in recent years.

Failure to comply with fraud and abuse laws and regulations could result in significant civil and criminal penalties and costs, including the loss of licenses and the ability to participate in federal and state health care programs, and could have a material adverse effect on our business. Also, these measures may be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that could require us to make changes in our operations or incur substantial defense and settlement expenses. Even unsuccessful challenges by regulatory authorities or private relators could result in reputational harm and the incurring of substantial costs. In addition, many of these laws are vague or indefinite and have not been interpreted by the courts, and have been subject to frequent modification and

varied interpretation by prosecutorial and regulatory authorities, increasing the risk of noncompliance.

While we believe that we are substantially compliant with applicable fraud and abuse laws and regulations, and have adequate compliance programs and controls in place to ensure substantial compliance, we cannot predict whether changes in applicable law, or interpretation of laws, or changes in our services or marketing practices in response to changes in applicable law or interpretation of laws, could have a material adverse effect on our business.

Health Care Reform

The Health Care Reform Law increased federal oversight of private health insurance plans and included a number of provisions designed to reduce Medicare expenditures and the cost of health care generally, to reduce fraud and abuse, and to provide access to increased health coverage.

The Health Care Reform Law requirements include a 2.3% excise tax on domestic sales of many medical devices by manufacturers and importers that began in 2013 and a fee on branded prescription drugs and biologics

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that was implemented in 2011, both of which may affect sales. However, with respect to the medical device excise tax, a two year moratorium was imposed under the Consolidated Appropriations Act, 2016, suspending the imposition of the tax on device sales during the period beginning January 1, 2016 and ending on December 31, 2017, and on January 22, 2018 an additional two-year moratorium was imposed under Public Law No. 115-120, suspending the imposition of the tax on device sales during the period beginning January 1, 2018 and ending on December 31, 2019. The Health Care Reform Law has also materially expanded the number of individuals in the United States with health insurance. The Health Care Reform Law has faced ongoing legal challenges, including litigation seeking to invalidate some of or all of the law or the manner in which it has been implemented. In addition, the President is seeking to repeal and replace the Health Care Reform Law. Repeal and replace legislation has been passed in the House of Representatives, but did not obtain the necessary votes in the Senate. Subsequently, the President has affirmed his intention to repeal and replace the Health Care Reform Law and has taken a number of administrative actions to materially weaken the Health Care Reform Law. On December 22, 2017, the President signed the Tax Cuts and Jobs Act into law, which contains a broad range of tax reform provisions that impact the individual and corporate tax rates, international tax provisions, income tax add-back provisions and deductions. The tax reform law also repealed the individual mandate of the Health Care Reform Law. The uncertain status of the Health Care Reform Law affects our ability to plan.

A Health Care Reform Law provision, generally referred to as the Physician Payment Sunshine Act or Open Payments Program, has imposed new reporting and disclosure requirements for drug and device manufacturers with regard to payments or other transfers of value made to certain practitioners (including physicians, dentists and teaching hospitals), and for such manufacturers and for group purchasing organizations, with regard to certain ownership interests held by physicians in the reporting entity. The Centers for Medicare and Medicaid Services (“CMS”) publishes information from these reports on a publicly available website, including amounts transferred and physician, dentist and teaching hospital identities.

Under the Physician Payment Sunshine Act we are required to collect and report detailed information regarding certain financial relationships we have with physicians, dentists and teaching hospitals. We believe that we are substantially compliant with applicable Physician Payment Sunshine Act requirements. The Physician Payment Sunshine Act pre-empts similar state reporting laws, although we or our subsidiaries may also be required to report under certain state transparency laws that address circumstances not covered by the Physician Payment Sunshine Act, and some of these state laws, as well as the federal law, can be ambiguous. We are also subject to foreign regulations requiring transparency of certain interactions between suppliers and their customers. While we believe we have substantially compliant programs and controls in place to comply with these requirements, our compliance with these rules imposes additional costs on us.

Another notable Medicare health care reform initiative, the Medicare Access and CHIP Reauthorization Act of 2015 (“MACRA”), enacted on April 16, 2015, establishes a new payment framework, called the Quality Payment Program, which modifies certain Medicare payments to “eligible clinicians,” including physicians, dentists and other practitioners. Under MACRA, eligible clinicians will be required to participate in Medicare through the Merit-Based Incentive Payment System (“MIPS”) or Advanced Alternative Payment Models (“APMs”). MIPS generally will

consolidate three current programs; the physician quality reporting system, the value-based payment modifier and the Medicare electronic health record (“EHR”) programs into a single program in which Medicare reimbursement to eligible clinicians will include both positive and negative payment adjustments that take into account quality, resource use, clinical practice improvement and meaningful use of certified EHR technology. Advanced APMs generally involve higher levels of financial and technology risk. A final rule was published in the Federal Register on November 4, 2016 and allows eligible Medicare clinicians to pick their pace of participation for the first performance period that began January 1, 2017. The data collected in the first performance year will determine payment adjustments beginning January 1, 2019. A final rule updating certain Quality Payment Program regulations was published on November 16, 2017, which became effective as of January 1, 2018. MACRA represents a fundamental change in physician reimbursement that is expected to provide substantial financial incentives for physicians to participate in risk contracts, and to increase physician information technology and reporting obligations. The implications of the implementation of MACRA are uncertain and will depend on future regulatory activity and physician activity in the marketplace. MACRA may encourage physicians to move from smaller practices to larger physician groups or hospital employment, leading to a consolidation of a portion of our customer base. Although we believe that we are positioned to capitalize on this consolidation trend, there can be no assurances that we will be able to successfully accomplish this.

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Regulated Software; Electronic Health Records

The FDA has become increasingly active in addressing the regulation of computer software intended for use in health care settings, and has developed and continues to develop policies on regulating clinical decision support tools and other types of software as medical devices. Certain of our businesses involve the development and sale of software and related products to support physician and dental practice management, and it is possible that the FDA or foreign government authorities could determine that one or more of our products is a medical device, which could subject us or one or more of our businesses to substantial additional requirements with respect to these products.

In addition, our businesses that involve physician and dental practice management products include electronic information technology systems that store and process personal health, clinical, financial and other sensitive information of individuals. These information technology systems may be vulnerable to breakdown, wrongful intrusions, data breaches and malicious attack, which could require us to expend significant resources to eliminate these problems and address related security concerns, and could involve claims against us by private parties and/or governmental agencies. For example, we are directly or indirectly subject to numerous and evolving federal, state, local and foreign laws and regulations that protect the privacy and security of such information, such as the privacy and security provisions of the federal Health Insurance Portability and Accountability Act of 1996, as amended, and implementing regulations (“HIPAA”). HIPAA requires, among other things, the implementation of various recordkeeping, operational, notice and other practices intended to safeguard that information, limit its use to allowed purposes and notify individuals in the event of privacy and security breaches. Failure to comply with these laws and regulations can result in substantial penalties and other liabilities.

In addition, the European Parliament and the Council of the European Union have adopted a new pan-European General Data Protection Regulation (“GDPR”), effective from May 25, 2018, which increases privacy rights for individuals in Europe, extends the scope of responsibilities for data controllers and data processors and imposes increased requirements and potential penalties on companies offering goods or services to individuals who are located in Europe (“Data Subjects”) or monitoring the behavior of such individuals (including by companies based outside of Europe). Noncompliance can result in penalties of up to the greater of EUR 20 million, or 4% of global company revenues. Individual member states may impose additional requirements and penalties as they relate to certain things such as employee personal data. Among other things, the GDPR requires with respect to data concerning Data Subjects, company accountability, consents from Data Subjects or other acceptable legal basis needed to process the personal data, prompt breach notifications within 72 hours, fairness and transparency in how the personal data is stored, used or otherwise processed, and data integrity and security, and provides rights to Data Subjects relating to modification, erasure and transporting of the personal data. While we expect to have substantially compliant

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programs and controls in place to comply with the GDPR requirements, our compliance with the new regulation is likely to impose additional costs on us, and we cannot predict whether the interpretations of the requirements, or changes in our practices in response to new requirements or interpretations of the requirements, could have a material adverse effect on our business.

We also sell products and services that health care providers, such as physicians and dentists, use to store and manage patient medical or dental records. These customers are subject to laws, regulations and industry standards, such as HIPAA and the Payment Card Industry Data Security Standards, which require that they protect the privacy and security of those records, and our products may be used as part of these customers' comprehensive data security programs, including in connection with their efforts to comply with applicable privacy and security laws. Perceived or actual security vulnerabilities in our products or services, or the perceived or actual failure by us or our customers who use our products to comply with applicable legal requirements, may not only cause us significant reputational harm, but may also lead to claims against us by our customers and/or governmental agencies and involve substantial fines, penalties and other liabilities and expenses and costs for remediation.

Federal initiatives provide a program of incentive payments available to certain health care providers involving the adoption and use of certain electronic health care records systems and processes. The initiatives include providing, among others, physicians and dentists, with financial incentives, if they meaningfully use certified EHR

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technology in accordance with applicable and evolving requirements. In addition, Medicare-eligible providers that fail to timely adopt certified EHR systems and meet “meaningful use” requirements for those systems in accordance with regulatory requirements are to be subject to cumulative Medicare reimbursement reductions, which reductions for applicable health professionals (including physicians and dentists) began on January 1, 2015. Qualification for the incentive payments requires the use of EHRs that have certain capabilities for meaningful use pursuant to evolving standards adopted by CMS and by the Office of the National Coordinator for Health Information Technology (“ONC”) of the Department of Health and Human Services (“HHS”).

The use of certified EHR technology will continue as a feature of MACRA’s MIPS program, and in connection with this, Medicare EHR program payment adjustments to eligible clinicians will sunset at the end of 2018 and MIPS payment adjustments will begin on January 1, 2019. The first performance period for MIPS began January 1, 2017, and will afford eligible clinicians different reporting options linked to the amount of data reported and the duration of the reporting period, with positive payment adjustments generally linked to more robust reporting.

On October 6, 2015, CMS and ONC released comprehensive final rules with respect to the EHR program that, among other things, established the more challenging “Stage 3” criteria, made certain adjustments to Stage 1 and Stage 2 standards (e.g., reducing the 2015 reporting period from a full year to 90 days), and finalized 2015 edition health information technology (HIT) certification criteria (which is now added to the existing 2014 edition HIT certification criteria, but not required until 2018). Notably, under the new rules, compliance with Stage 3 standards is optional for providers in 2017, and would generally be required for all eligible providers (regardless of prior participation in the EHR incentive program) for 2018 reporting periods and subsequently. Developers and others involved in the manufacture of EHR program technology will have this interim period to develop and certify products and work with customers to implement products for the 2018 EHR program period. In connection with the release of the October 6 rules, HHS has also stated that it will continue to modify applicable EHR program standards. On November 14, 2016, CMS published a final rule that will impact Medicare and Medicaid EHR incentive programs through revisions to the objectives and measures for eligible hospitals, critical access hospitals and dual-eligible hospitals.

Certain of our businesses involve the manufacture and sale of certified EHR systems and other products linked to incentive programs, and therefore we must maintain compliance with, and are affected by, these changing governmental criteria. In order to maintain certification of our EHR products, we must satisfy these changing governmental criteria. Certain of our businesses involve the manufacture and sale of certified EHR systems and other products linked to incentive programs. CMS and ONC establish criteria for certified EHR systems, and these criteria have been subject to change. In order to maintain certification of our EHR products, we must satisfy these changing governmental criteria. If any of our EHR systems do not meet these standards, yet have been relied upon by health care providers to receive federal incentive payments, as noted above, we are exposed to risk under federal health care fraud and abuse laws, such as the False Claims Act. For example, on May 31, 2017, the U.S. Department of Justice announced a \$155 million settlement and 5-year corporate integrity agreement involving a vendor of certified EHR systems, based on allegations that the vendor, by misrepresenting capabilities to the certifying body, caused its health care provider customers to submit false Medicare and Medicaid claims for meaningful use payments in violation of the False Claims Act. While we believe we are substantially in compliance with such certifications and with

applicable fraud and abuse laws and regulations, and we have adequate compliance programs and controls in place to ensure substantial compliance, we cannot predict whether changes in applicable law, or interpretation of laws, or changes in our practices in response to changes in applicable law or interpretation of laws, could have a material adverse effect on our business. Moreover, in order to satisfy our customers, our products may need to incorporate increasingly complex reporting functionality. Although we believe we are positioned to accomplish this, the effort may involve increased costs, and our failure to implement product modifications, or otherwise satisfy applicable standards, could have a material adverse effect on our business.

Other health information standards, such as regulations under HIPAA, establish standards regarding electronic health data transmissions and transaction code set rules for specific electronic transactions, such as transactions involving claims submissions to third party payers. Certain of our businesses provide electronic practice management products that must meet these requirements. Failure to abide by electronic health data transmission

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standards could expose us to breach of contract claims, substantial fines, penalties, and other liabilities and expenses, costs for remediation and harm to our reputation.

Additionally, as electronic medical devices are increasingly connected to each other and to other technology, the ability of these connected systems safely and effectively to exchange and use exchanged information becomes increasingly important. On September 6, 2017, the FDA issued guidance to assist industry in identifying specific considerations related to the ability of electronic medical devices to safely and effectively exchange and use exchanged information. As a medical device manufacturer, we must manage risks including those associated with an electronic interface that is incorporated into a medical device.

There may be additional legislative or regulatory initiatives in the future impacting health care.

E-Commerce

Electronic commerce solutions have become an integral part of traditional health care supply and distribution relationships. Our distribution business is characterized by rapid technological developments and intense competition. The continuing advancement of online commerce requires us to cost-effectively adapt to changing technologies, to enhance existing services and to develop and introduce a variety of new services to address the changing demands of consumers and our customers on a timely basis, particularly in response to competitive offerings.

Through our proprietary, technologically based suite of products, we offer customers a variety of competitive alternatives. We believe that our tradition of reliable service, our name recognition and large customer base built on solid customer relationships, position us well to participate in this significant aspect of the distribution business. We continue to explore ways and means to improve and expand our Internet presence and capabilities, including our online commerce offerings and our use of various social media outlets.

International Transactions

In addition, United States and foreign import and export laws and regulations require us to abide by certain standards relating to the importation and exportation of products. We also are subject to certain laws and regulations concerning the conduct of our foreign operations, including the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act,

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German anti-corruption laws and other anti-bribery laws and laws pertaining to the accuracy of our internal books and records, as well as other types of foreign requirements similar to those imposed in the United States.

While we believe that we are substantially compliant with the foregoing laws and regulations promulgated thereunder and possess all material permits and licenses required for the conduct of our business, there can be no assurance that regulations that impact our business or customers' practices will not have a material adverse effect on our business. As a result of political, economic and regulatory influences, the health care distribution industry in the United States is under intense scrutiny and subject to fundamental changes. We cannot predict what further reform proposals, if any, will be adopted, when they may be adopted, or what impact they may have on us.

See "ITEM 1A. Risk Factors" for a discussion of additional burdens, risks and regulatory developments that may affect our results of operations and financial condition.

Proprietary Rights

We hold trademarks relating to the "Henry Schein®" name and logo, as well as certain other trademarks. We intend to protect our trademarks to the fullest extent practicable.

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Employees

As of December 30, 2017, we employed more than 22,000 full-time employees, including approximately 2,300 telesales representatives, over 4,200 field sales consultants, including equipment sales specialists, 4,700 warehouse employees, 700 computer programmers and technicians, 1,100 management employees and 9,400 office, clerical and administrative employees. At December 30, 2017, 2,076, or 9%, of our employees were subject to collective bargaining agreements. We believe that our relations with our employees are excellent.

Available Information

We make available free of charge through our Internet website, www.henryschein.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, statements of beneficial ownership of securities on Forms 3, 4 and 5 and amendments to these reports and statements filed or furnished pursuant to Section 13(a) and Section 16 of the Securities Exchange Act of 1934 as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the United States Securities and Exchange Commission, or SEC.

The above information is also available at the SEC's Office of Investor Education and Advocacy at United States Securities and Exchange Commission, 100 F Street, N.E., Washington, D.C. 20549-0213 or obtainable by calling the SEC at (800) 732-0330. In addition, the SEC maintains an Internet website at www.sec.gov, where the above information can be viewed.

Our principal executive offices are located at 135 Duryea Road, Melville, New York 11747, and our telephone number is (631) 843-5500. Unless the context specifically requires otherwise, the terms the "Company," "Henry Schein," "we," "us" and "our" mean Henry Schein, Inc., a Delaware corporation, and its consolidated subsidiaries.

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Executive Officers of the Registrant

The following table sets forth certain information regarding our executive officers:

| Name | Age | Po |
|---------------------------|-----|----|
| Stanley M. Bergman | 68 | Ch |
| Gerald A. Benjamin | 65 | Ex |
| James P. Breslawski | 64 | Pr |
| Michael S. Ettinger | 56 | Se |
| David C. McKinley | 65 | Ch |
| | | Gr |
| Mark E. Mlotek | 62 | Ex |
| Steven Paladino | 60 | Ex |
| Karen Prange..... | 54 | Ex |
| | | M |
| Walter Siegel | 58 | Se |

Stanley M. Bergman has been our Chairman and Chief Executive Officer since 1989 and a director since 1982. Mr. Bergman held the position of President from 1989 to 2005. Mr. Bergman held the position of Executive Vice President from 1985 to 1989 and Vice President of Finance and Administration from 1980 to 1985.

Gerald A. Benjamin has been our Executive Vice President and Chief Administrative Officer since 2000 and a director since 1994. Prior to holding his current position, Mr. Benjamin was Senior Vice President of Administration and Customer Satisfaction since 1993. Mr. Benjamin was Vice President of Distribution Operations from 1990 to 1992 and Director of Materials Management from 1988 to 1990. Before joining us in 1988, Mr. Benjamin was employed for 12 years at Estée Lauder, Inc., in various management positions where his last position was Director of Materials Planning and Control.

James P. Breslawski has been our President since 2005 and a director since 1992. Mr. Breslawski is also the Chief Executive Officer of our Henry Schein Global Dental Group. Mr. Breslawski held the position of Executive Vice President and President of U.S. Dental from 1990 to 2005, with primary responsibility for the North American Dental Group. Between 1980 and 1990, Mr. Breslawski held various positions with us, including Chief Financial Officer, Vice President of Finance and Administration and Corporate Controller.

Michael S. Ettinger has been Senior Vice President, Corporate & Legal Affairs, Chief of Staff and Secretary since 2015. Prior to his current position, Mr. Ettinger served as Senior Vice President, Corporate & Legal Affairs and Secretary from 2013 to 2015, Corporate Senior Vice President, General Counsel & Secretary from 2006 to 2013, Vice President, General Counsel and Secretary from 2000 to 2006, Vice President and Associate General Counsel from 1998 to 2000 and Associate General Counsel from 1994 to 1998. Before joining us, Mr. Ettinger served as a senior associate with Bower & Gardner and as a member of the Tax Department at Arthur Andersen.

David C. McKinley has been Chief Commercial Officer and President, Corporate Commercial Development Group since 2016. Before assuming his current position, Mr. McKinley was President of Henry Schein's Medical Group since 2008. Mr. McKinley was President of Henry Schein Practice Solutions from 2006 to 2008 and President of Dental Prosthetic Solutions from 2005 to 2006. Prior to joining us, Mr. McKinley served as the Group Executive for Olympus Medical North America and as General Manager for the Bard Urology and Bard Germany businesses. Mr. McKinley currently serves on the Health Industry Distributors Association (HIDA) Education Foundation.

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Mark E. Mlotek has been Executive Vice President and Chief Strategic Officer since 2012. Mr. Mlotek was Senior Vice President and subsequently Executive Vice President of the Corporate Business Development Group between 2000 and 2012. Prior to that, Mr. Mlotek was Vice President, General Counsel and Secretary from 1994 to 1999 and became a director in 1995. Prior to joining us, Mr. Mlotek was a partner in the law firm of Proskauer Rose LLP, counsel to us, specializing in mergers and acquisitions, corporate reorganizations and tax law from 1989 to 1994.

Steven Paladino has been our Executive Vice President and Chief Financial Officer since 2000. Prior to holding his current position, Mr. Paladino was Senior Vice President and Chief Financial Officer from 1993 to 2000 and has been a director since 1992. From 1990 to 1992, Mr. Paladino served as Vice President and Treasurer and from 1987 to 1990 served as Corporate Controller. Before joining us, Mr. Paladino was employed in public accounting for seven years, most recently with the international accounting firm of BDO USA, LLP. Mr. Paladino is a certified public accountant.

Karen Prange has been Executive Vice President and Chief Executive Officer, Global Animal Health, Medical and Dental Surgical Group since 2016. Before joining us, Ms. Prange was Senior Vice President and President, Urology and Pelvic Health at Boston Scientific Corporation since 2012 and held various positions of increasing responsibility at Johnson & Johnson, most recently as General Manager of the Micrus Endovascular and Codman Neurovascular businesses. Ms. Prange is a member of the Committee of 200 (C200), a membership organization of the world's most successful women entrepreneurs and corporate innovators.

Walter Siegel has been Senior Vice President and General Counsel since 2013. Prior to joining us, Mr. Siegel was employed with Standard Microsystems Corporation, a publicly traded global semiconductor company from 2005 to 2012, holding positions of increasing responsibility, most recently as Senior Vice President, General Counsel and Secretary.

Other Executive Management

The following table sets forth certain information regarding other Executive Management:

Name

Age

| | |
|------------------------|----|
| James A. Harding | 62 |
| Peter McCarthy | 58 |
| Lorelei McGlynn | 54 |
| Bob Minowitz | 59 |
| Michael Racioppi | 63 |
| Paul Rose | 60 |

James A. Harding has been our Corporate Chief Technology Officer since 2005 and Senior Vice President since 2001. Prior to holding his current position, Mr. Harding was Chief Information Officer since 2001, with primary responsibility for worldwide information technology.

Peter McCarthy has been President, Global Animal Health Group since 2015. Prior to holding his current position, Mr. McCarthy was President, Henry Schein International Animal Health from 2012 to 2015 and President, Henry Schein Animal Health, Europe from 2010 to 2012. Prior to joining us, Mr. McCarthy was employed with Schering-Plough Animal Health (now Merck Animal Health), serving as Senior Director, Global Operations and General Manager, China. Mr. McCarthy also worked at Wyeth/American Cyanamid for 14 years, helping to grow the human pharmaceutical business.

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Lorelei McGlynn has served as Senior Vice President, Global Human Resources and Financial Operations since 2013. Since joining us in 1999, Ms. McGlynn has served as Vice President, Global Human Resources and Financial Operations from 2008 to 2013, Chief Financial Officer, International Group and Vice President of Global Financial Operations from 2002 to 2008 and Vice President, Finance, North America from 1999 to 2002. Prior to joining us, Ms. McGlynn served as Assistant Vice President of Finance at Adecco Corporation.

Bob Minowitz has been President of Henry Schein's International Dental Group since 2012 with the addition of responsibility for the EMEA region beginning in 2016. Before assuming his current position, Mr. Minowitz held a number of key roles with increasing responsibility throughout the Company, including President, Henry Schein European Dental Group from 2009 to 2012, President, Henry Schein Western Europe, Middle East and Pacific Regions from 2006 to 2009, Managing Director, Henry Schein U.K. Holdings from 2004 to 2006, President Henry Schein Western Europe from 2004 to 2006 and President Henry Schein Europe from 2001 to 2004. Prior to joining us, Mr. Minowitz was employed by Bristol-Myers Company as a Senior Internal Auditor.

Michael Racioppi has been our Senior Vice President, Chief Merchandising Officer since 2008. Prior to holding his current position, Mr. Racioppi was President of the Medical Division from 2000 to 2008 and Interim President from 1999 to 2000, and Corporate Vice President from 1994 to 2008, with primary responsibility for the Medical Group, Marketing and Merchandising departments. Mr. Racioppi served as Senior Director, Corporate Merchandising from 1992 to 1994. Before joining us in 1992, Mr. Racioppi was employed by Ketchum Distributors, Inc. as the Vice President of Purchasing and Marketing. He currently serves on the board of National Distribution and Contracting and previously served on the board of Health Distribution Management Association and Health Industry Distributors Association (HIDA).

Paul Rose has served as Senior Vice President, Global Supply Chain since 2013. Prior to holding his current position, Mr. Rose held a number of key roles with increasing responsibility throughout the Company, including serving as Vice President, Global Supply Chain from 2008 to 2013, Vice President, Global Inventory Management from 2004 to 2008 and Vice President, Inventory Management, North America from 2001 to 2004. He also served on the HIDA Supply Chain Advisory Council and as the National Wholesale Druggists' Associations Pharmaceutical Market Committee Chairman.

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ITEM 1A. Risk Factors

The risks described below could have a material adverse effect on our business, reputation, financial condition and/or the trading price of our common stock. Although it is not possible to predict or identify all such risks and uncertainties, they may include, but are not limited to, the factors discussed below. Our business operations could also be affected by additional factors that are not presently known to us or that we currently consider not to be material to our operations. You should not consider this list to be a complete statement of all risks and uncertainties. The order in which these factors appear should not be construed to indicate their relative importance or priority.

The health care products distribution industry is highly competitive and consolidating, and we may not be able to compete successfully.

We compete with numerous companies, including several major manufacturers and distributors. Some of our competitors have greater financial and other resources than we do, which could allow them to compete more successfully. Most of our products are available from several sources and our customers tend to have relationships with several distributors. Competitors could obtain exclusive rights to market particular products, which we would then be unable to market. Manufacturers also could increase their efforts to sell directly to end-users and thereby eliminate or reduce our role and the roles of other distributors. Industry consolidation among health care product distributors, price competition, the unavailability of products, whether due to our inability to gain access to products or to interruptions in supply from manufacturers, or the emergence of new competitors, also could increase competition. There has also been increasing consolidation among manufacturers of health care products which could have a material adverse effect on our margins and product availability. Additionally, in this competitive market, some of our contracts contain minimum purchase commitments. We could be subject to charges and financial losses in the event we fail to satisfy minimum purchase commitments. In the future, we may be unable to compete successfully and competitive pressures may reduce our revenues and profitability.

Because substantially all of the products that we distribute are not manufactured by us, we are dependent upon third parties for the manufacture and supply of substantially all of our products.

We obtain substantially all of our products from third parties. Generally, we do not have long-term contracts with our suppliers committing them to supply products to us. Therefore, suppliers may not provide the products we need in the quantities we request. While there is generally more than one source of supply for most of the categories of products we sell, some key suppliers, in the aggregate, supply a significant portion of the products we sell. Additionally, because we generally do not control the actual production of the products we sell, we may be subject to delays caused by interruption in production based on conditions outside of our control, including the failure to comply with applicable government requirements. The failure of manufacturers of products regulated by the FDA or other

governmental agencies to meet these requirements could result in product recall, cessation of sales or other market disruptions. In the event that any of our third-party suppliers were to become unable or unwilling to continue to provide the products in our required volumes, we would need to identify and obtain acceptable replacement sources on a timely basis. There is no guarantee that we would be able to obtain such alternative sources of supply on a timely basis, if at all. An extended interruption in the supply of our products, especially any high sales volume product, could have a material adverse effect on our results of operations, which most likely would adversely affect the value of our common stock.

Our revenues and profitability depend on our relationships with capable sales personnel as well as customers, suppliers and manufacturers of the products that we distribute.

Our future revenues and profitability depend on our ability to maintain satisfactory relationships with qualified sales personnel as well as customers, suppliers and manufacturers. If we fail to maintain our existing relationships with such persons or fail to acquire relationships with such key persons in the future, our business may be materially adversely affected.

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Our future success is substantially dependent upon our senior management.

Our future success is substantially dependent upon the efforts and abilities of members of our existing senior management, particularly Stanley M. Bergman, Chairman and Chief Executive Officer. The loss of the services of Mr. Bergman could have a material adverse effect on our business. We have an employment agreement with Mr. Bergman. We do not currently have “key man” life insurance policies on any of our employees. Competition for senior management is intense and we may not be successful in attracting and retaining key personnel.

We experience fluctuations in quarterly earnings. As a result, we may fail to meet or exceed the expectations of securities analysts and investors, which could cause our stock price to decline.

Our business is subject to seasonal and other quarterly fluctuations. Revenues and profitability generally have been higher in the third and fourth quarters due to the timing of sales of seasonal products (including influenza vaccine, equipment and software products), purchasing patterns of office-based health care practitioners and year-end promotions. Revenues and profitability generally have been lower in the first quarter, primarily due to increased sales in the prior two quarters. We expect our historical seasonality of sales to continue in the foreseeable future. Quarterly results may also be materially adversely affected by a variety of other factors, including:

- timing and amount of sales and marketing expenditures;
- timing of pricing changes offered by our suppliers;
- timing of the introduction of new products and services by our suppliers;
- timing of the release of upgrades and enhancements to our technology-related products and services;
- changes in or availability of supplier contracts or rebate programs;
- supplier rebates based upon attaining certain growth goals;
- changes in the way suppliers introduce or deliver products to market;

Our future revenues and profitability depend on our ability to maintain satisfactory relationships with qualified sales

- costs of developing new applications and services;
- our ability to correctly identify customer needs and preferences and predict future needs and preferences;
- uncertainties regarding potential significant breaches of data security or disruptions of our information technology systems;
- unexpected regulatory actions, or government regulation generally;
- exclusivity requirements with certain suppliers, which may prohibit us from distributing competitive products manufactured by other suppliers;
- loss of sales representatives;
- costs related to acquisitions and/or integrations of technologies or businesses;
- costs associated with our self-insured medical and dental insurance programs;
- general market and economic conditions, as well as those specific to the health care industry and related industries;
- our success in establishing or maintaining business relationships;
- unexpected difficulties in developing and manufacturing products;
- product demand and availability, or product recalls by manufacturers;

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- exposure to product liability and other claims in the event that the use of the products we sell results in injury;
- increases in shipping costs or service issues with our third-party shippers;
- fluctuations in the value of foreign currencies;
- restructuring costs;
- the adoption or repeal of legislation;
- changes in accounting principles; and
- litigation or regulatory judgments, expenses or settlements.

Any change in one or more of these or other factors could cause our annual or quarterly financial results to fluctuate. If our financial results do not meet market expectations, our stock price may decline.

Expansion of group purchasing organizations (“GPO”) or provider networks and the multi-tiered costing structure may place us at a competitive disadvantage.

The medical products industry is subject to a multi-tiered costing structure, which can vary by manufacturer and/or product. Under this structure, certain institutions can obtain more favorable prices for medical products than we are able to obtain. The multi-tiered costing structure continues to expand as many large integrated health care providers and others with significant purchasing power, such as GPOs, demand more favorable pricing terms. Additionally, the formation of provider networks and GPOs may shift purchasing decisions to entities or persons with whom we do not have a historical relationship. This may threaten our ability to compete effectively, which could in turn negatively impact our financial results. Although we are seeking to obtain similar terms from manufacturers to obtain access to lower prices demanded by GPO contracts or other contracts, and to develop relationships with provider networks and new GPOs, we cannot assure that such terms will be obtained or contracts will be executed.

Increases in shipping costs or service issues with our third-party shippers could harm our business.

Shipping is a significant expense in the operation of our business. We ship almost all of our orders through third-party delivery services, and typically bear the cost of shipment. Accordingly, any significant increase in shipping rates could have a material adverse effect on our business, financial condition or operating results. Similarly, strikes or other service interruptions by those shippers could cause our operating expenses to rise and materially adversely affect our ability to deliver products on a timely basis.

Uncertain global macro-economic and political conditions could materially adversely affect our results of operations and financial condition.

Uncertain global macro-economic and political conditions that affect the economy and the economic outlook of the United States, Europe and other parts of the world could materially adversely affect our results of operations and financial condition. These uncertainties, include, among other things:

- the United Kingdom's vote to leave the European Union (generally referred to as Brexit) and any other similar referenda or actions by other European Union member countries (during 2017, approximately 7% of our consolidated net sales were invoiced to customers in the United Kingdom and approximately 25% of our consolidated net sales were invoiced to customers in Europe overall, including the U.K.);
- election results;
- changes to laws and policies governing foreign trade (including, without limitation, North American Free Trade Agreement (NAFTA) and other international trade agreements);
- greater restrictions on imports and exports;
- changes in laws and policies governing health care;
- tariffs and sanctions;

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Shipping is a significant expense in the operation of our business. We ship almost all of our orders through third-party

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- sovereign debt levels;

- the inability of political institutions to effectively resolve actual or perceived economic, currency or budgetary crises or issues;

- consumer confidence;

- unemployment levels (and a corresponding increase in the uninsured and underinsured population);

- changes in regulatory and tax regulations; including without limitation, the Tax Cuts and Reform Act;

- increases in interest rates;

- availability of capital;

- increases in fuel and energy costs;

- the effect of inflation on our ability to procure products and our ability to increase prices over time;

- changes in tax rates and the availability of certain tax deductions;

- increases in health care costs;
- the threat or outbreak of war, terrorism or public unrest; and

•changes in laws and policies governing manufacturing, development and investment in territories and countries where we do business.

Additionally, changes in government, government debt and/or budget crises may lead to reductions in government spending in certain countries, which could reduce overall health care spending, and/or higher income or corporate taxes, which could depress spending overall.

Recessionary conditions and depressed levels of consumer and commercial spending may also cause customers to reduce, modify, delay or cancel plans to purchase our products and may cause suppliers to reduce their output or

Shipping is a significant expense in the operation of our business. We ship almost all of our orders through 50 third-pa

change their terms of sale. We generally sell products to customers with payment terms. If customers' cash flow or operating and financial performance deteriorate, or if they are unable to make scheduled payments or obtain credit, they may not be able to pay, or may delay payment to us. Likewise, for similar reasons suppliers may restrict credit or impose different payment terms. Any inability of current and/or potential customers to pay us for our products and/or services or any demands by suppliers for different payment terms may materially adversely affect our results of operations and financial condition.

Disruptions in the financial markets may materially adversely affect the availability and cost of credit to us.

Our ability to make scheduled payments or refinance our obligations with respect to indebtedness will depend on our operating and financial performance, which in turn is subject to prevailing economic conditions and financial, business and other factors beyond our control. Disruptions in the financial markets may materially adversely affect the availability and cost of credit to us.

The market price for our common stock may be highly volatile.

The market price for our common stock may be highly volatile. A variety of factors may have a significant impact on the market price of our common stock, including, but not limited to:

- the publication of earnings estimates or other research reports and speculation in the press or investment community;

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- changes in our industry and competitors;

- changes in government or legislation;

- our financial condition, results of operations and cash flows and prospects;

- stock repurchases;

- any future issuances of our common stock, which may include primary offerings for cash, stock splits, issuances in connection with business acquisitions, issuances of restricted stock/units and the grant or exercise of stock options from time to time;

- general market and economic conditions; and

- any outbreak or escalation of hostilities in areas where we do business.

In addition, the NASDAQ Stock Market can experience extreme price and volume fluctuations that can be unrelated or disproportionate to the operating performance of the companies listed on NASDAQ. Broad market and industry factors may negatively affect the market price of our common stock, regardless of actual operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against companies. This type of litigation, if instituted, could result in substantial costs and a diversion of management's attention and resources, which could have a material adverse effect on our business.

The health care industry is experiencing changes that could materially adversely affect our business.

The health care industry is highly regulated and subject to changing political, economic and regulatory influences. In recent years, the health care industry has undergone, and is in the process of undergoing, significant changes driven by various efforts to reduce costs, including, among other things: trends toward managed care; consolidation of health care distribution companies; consolidation of health care manufacturers; collective purchasing arrangements and consolidation among office-based health care practitioners; and changes in reimbursements to customers, as well as growing enforcement activities (and related monetary recoveries) by governmental officials. Both our profitability and the profitability of our customers may be materially adversely affected by laws and regulations reducing reimbursement rates for pharmaceuticals and/or medical treatments or services, changes to the methodology by which

The market price for our common stock may be highly volatile.

reimbursement levels are determined and, in the case of animal health practitioners, changes in the use of feed additives (including, without limitation, antibiotics and growth promotants) used in the production of animal products due to trade restrictions, animal welfare and/or government regulations; and changes in customer buying habits (including customers purchasing animal health pharmaceuticals outside the veterinarians' offices). If we are unable to react effectively to these and other changes in the health care industry, our financial results could be materially adversely affected.

The implementation of the Health Care Reform Law could materially adversely affect our business.

The Health Care Reform Law significantly expand health insurance coverage to uninsured Americans and changes the way health care is financed by both governmental and private payers.

The Health Care Reform Law contains many provisions designed to generate the revenues necessary to fund the coverage expansions and to reduce costs of Medicare and Medicaid, including imposing a 2.3% excise tax on domestic sales of many medical devices by manufacturers and importers that began in 2013, and a fee on branded prescription drugs and biologics that was implemented in 2011, both of which may adversely affect sales and cost of goods sold. However, with respect to the medical device excise tax, a two-year moratorium was imposed under the Consolidated Appropriations Act, 2016, suspending the imposition of the tax on device sales during the period beginning January 1, 2016 and ending on December 31, 2017, and on January 22, 2018 an additional two-year moratorium was imposed under Public Law No. 115-120, suspending the imposition of the tax on device sales during the period beginning January 1, 2018 and ending on December 31, 2019. The Health Care Reform Law has also materially expanded the number of individuals in the United States with health insurance. The Health Care

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Reform Law has faced ongoing legal challenges, including litigation seeking to invalidate some of or all of the law or the manner in which it has been implemented. In addition, the President is seeking to repeal and replace the Health Care Reform Law. Repeal and replace legislation has been passed in the House of Representatives, but did not obtain the necessary votes in the Senate. Subsequently, the President has affirmed his intention to repeal and replace the Health Care Reform Law and has taken a number of administrative actions to materially weaken the Health Care Law. On December 22, 2017, the President signed the Tax Cuts and Jobs Act into law, which contains a broad range of tax reform provisions that impact the individual and corporate tax rates, international tax provisions, income tax add-back provisions and deductions. The tax reform law also repealed the individual mandate of the Health Care Reform Law. The uncertain status of the Health Care Reform Law also affects our ability to plan.

Another notable Medicare health care reform initiative, the Medicare Access and CHIP Reauthorization Act of 2015, enacted on April 16, 2015 (“MACRA”), establishes a new payment framework, called the Quality Payment Program, which modifies certain Medicare payments to “eligible clinicians,” including physicians, dentists and other practitioners. Under MACRA, eligible clinicians will be required to participate in Medicare through MIPS or APMs. MIPS generally will consolidate three current programs: the physician quality reporting system, the value-based payment modifier, and the Medicare EHR program into a single program in which Medicare reimbursement to eligible clinicians will include both positive and negative payment adjustments that take into account quality, resource use, clinical practice improvement and meaningful use of certified EHR technology. Advanced APMs generally involve higher levels of financial and technology risk. A final rule was published in the Federal Register on November 4, 2016 and allows eligible Medicare clinicians to pick their pace of participation for the first performance period that began January 1, 2017. The data collected in the first performance year will determine payment adjustments beginning January 1, 2019. A final rule updating certain Quality Payment Program regulations was published on November 16, 2017, which is effective as of January 1, 2018. MACRA represents a fundamental change in physician reimbursement that is expected to provide substantial financial incentives for physicians to participate in risk contracts, and to increase physician information technology and reporting obligations. The implications of the implementation of MACRA are uncertain and will depend on future regulatory activity and physician activity in the marketplace. MACRA may encourage physicians to move from smaller practices to larger physician groups or hospital employment, leading to a consolidation of a portion of our customer base. Although we believe that we are positioned to capitalize on this consolidation trend, there can be no assurances that we will be able to successfully accomplish this.

The implementation of the reporting and disclosure obligations of the Physician Payment Sunshine Act provisions of the Health Care Reform Law could adversely affect our business.

A Health Care Reform Law provision, generally referred to as the Physician Payment Sunshine Act, or Open Payments Program, imposes reporting and disclosure requirements for drug and device manufacturers with regard to payments or other transfers of value made to certain practitioners (including physicians, dentists and teaching hospitals), and for such manufacturers and for group purchasing organizations, with regard to certain ownership interests held by physicians in the reporting entity. CMS publishes information from these reports on a publicly available website, including amounts transferred and physician, dentist and teaching hospital identities. Under the Physician Payment Sunshine Act we are required to collect and report detailed information regarding certain financial relationships we have with physicians, dentists and teaching hospitals. We believe that we are substantially compliant

The market price for our common stock may be highly volatile.

with applicable Physician Payment Sunshine Act requirements. The Physician Payment Sunshine Act pre-empts similar state reporting laws, although we or our subsidiaries may also be required to report under certain state transparency laws that address circumstances not covered by the Physician Payment Sunshine Act, and some of these state laws, as well as the federal law, can be ambiguous. We are also subject to foreign regulations requiring transparency of certain interactions between suppliers and their customers. While we believe we have substantially compliant programs and controls in place to comply with these reporting requirements, our compliance with these new rules imposes additional costs on us.

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Failure to comply with existing and future regulatory requirements could materially adversely affect our business.

Our business is subject to requirements under various local, state, federal and international laws and regulations applicable to the distribution of pharmaceuticals and medical devices, and human cells, tissue and cellular and tissue-based products, also known as HCT/P products, and animal feed and supplements. Among the federal laws with which we must comply are the Controlled Substances Act, the Federal Food, Drug, and Cosmetic Act, as amended, and Section 361 of the Public Health Services Act. Among other things, such laws, and the regulations promulgated thereunder:

- regulate the storage and distribution, labeling, packaging, handling, reporting, record keeping, introduction, manufacturing and marketing of drugs, HCT/P products and medical devices;

- subject us to inspection by the FDA and the DEA;

- regulate the storage, transportation and disposal of certain of our products that are considered hazardous materials;

- require us to advertise and promote our drugs and devices in accordance with applicable FDA requirements;

- require registration with the FDA and the DEA and various state agencies;

- require record keeping and documentation of transactions involving drug products;

- require us to design and operate a system to identify and report suspicious orders of controlled substances to the DEA;

- require us to manage returns of products that have been recalled and subject us to inspection of our recall procedures and activities; and

- impose reporting requirements if a pharmaceutical, HCT/P product or medical device causes serious illness, injury or death.

Applicable federal, state, local and foreign laws and regulations also may require us to meet various standards relating to, among other things, licensure or registration, sales and marketing practices, product integrity and supply tracking

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to the manufacturer of the product, personnel, privacy and security of health or other personal information, installation, maintenance and repair of equipment, and the importation and exportation of products. Our business also is subject to requirements of similar and other foreign governmental laws and regulations affecting our operations abroad. The FDA and DEA have recently increased their regulatory and enforcement activities.

The failure to comply with any of these regulations, or new interpretations of existing laws and regulations, or the imposition of any additional laws and regulations, could materially adversely affect our business. There can be no assurance that current and future government regulations will not adversely affect our business. The costs to us associated with complying with the various applicable statutes and regulations, as they now exist and as they may be modified, could be material. Allegations by a governmental body that we have not complied with these laws could have a material adverse effect on our businesses. While we believe that we are substantially compliant with applicable fraud and abuse and other laws and regulations, and believe we have adequate compliance programs and controls in place to ensure substantial compliance, if it is determined that we have not complied with these laws, we are potentially subject to penalties including warning letters, civil and criminal penalties, mandatory recall of product, seizure of product and injunction, consent decrees and suspension or limitation of product sale and distribution. If we enter into settlement agreements to resolve allegations of non-compliance, we could be required to make settlement payments or be subject to civil and criminal penalties, including fines and the loss of licenses. Non-compliance with government requirements could adversely affect our ability to participate in federal and state government health care programs and damage our reputation.

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If we fail to comply with laws and regulations relating to health care fraud or other laws and regulations, we could suffer penalties or be required to make significant changes to our operations, which could materially adversely affect our business.

Certain of our businesses are subject to federal and state (and similar foreign) health care fraud and abuse, referral and reimbursement laws and regulations with respect to their operations. Some of these laws, referred to as “false claims laws,” prohibit the submission or causing the submission of false or fraudulent claims for reimbursement to federal, state and other health care payers and programs. Other laws, referred to as “anti-kickback laws,” prohibit soliciting, offering, receiving or paying remuneration in order to induce the referral of a patient or ordering, purchasing, leasing or arranging for or recommending ordering, purchasing or leasing, of items or services that are paid for by federal, state and other health care payers and programs. Health care fraud measures may implicate, for example, our relationships with pharmaceutical manufacturers, our pricing and incentive programs for physician and dental practices, and our dental and physician practice management products that offer billing-related functionality.

The fraud and abuse regulations have been subject to varying interpretations, as well as heightened enforcement activity, over the past few years, and significant enforcement activity has been the result of “relators,” who serve as whistleblowers by filing complaints in the name of the United States (and if applicable, particular states) under federal and state false claims laws. Under the federal False Claims Act relators can be entitled to receive up to 30% of total recoveries. Also, violations of the federal False Claims Act can result in treble damages, and, in accordance with a final rule published by the Department of Justice on February 3, 2017, which substantially increased the maximum and minimum civil penalties for False Claims Act violations, the amounts for civil penalties assessed after February 3, 2017, whose associated violations occurred after November 2, 2015, were increased from a minimum per-claim penalty of \$10,781 to \$10,957, and from a maximum per-claim penalty of \$21,563 to \$21,916. Most states have adopted similar state false claims laws, and these state laws have their own penalties which may be in addition to federal False Claims Act penalties. The Health Care Reform Law significantly strengthened the federal False Claims Act and the federal Anti-Kickback Law provisions, which could lead to the possibility of increased whistleblower or relator suits, and among other things made clear that a federal Anti-Kickback Law violation can be a basis for federal False Claims Act liability.

The United States government (among others) has expressed concerns about financial relationships between suppliers on the one hand and physicians and dentists on the other. As a result, we regularly review and revise our marketing practices as necessary to facilitate compliance.

We also are subject to certain United States and foreign laws and regulations concerning the conduct of our foreign operations, including the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, the German Anti-Corruption Law and other anti-bribery laws, anti-corruption laws and laws pertaining to the accuracy of our internal books and records, which have been the focus of increasing enforcement activity globally in recent years. Our businesses are generally subject to numerous other laws and regulations that could impact our financial results, including, without limitation,

The market price for our common stock may be highly volatile.

securities, antitrust and marketing laws and regulations. Failure to comply with laws or regulations could have a material adverse effect on our business.

Failure to comply with fraud and abuse laws and regulations and other laws and regulations could result in significant civil and criminal penalties and costs, including the loss of licenses and the ability to participate in federal and state health care programs, and could have a material adverse effect on our business. Also, these measures may be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that could require us to make changes in our operations or incur substantial defense and settlement expenses. Even unsuccessful challenges by regulatory authorities or private relators could result in reputational harm and the incurring of substantial costs. In addition, many of these laws are vague or indefinite and have not been interpreted by the courts, and have been subject to frequent modification and varied interpretation by prosecutorial and regulatory authorities, increasing the risk of non compliance. We may determine to enter into settlements, make payments, agree to consent decrees or enter into other arrangements to resolve such matters. For example, one of our subsidiaries recently resolved an investigation by the Federal Trade Commission related to the manner in which it advertised certain data security features of its dental practice management software, which resulted in a consent order and fine. Failure to comply with consent decrees could materially adversely affect our business.

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While we believe that we are substantially compliant with applicable fraud and abuse and other laws and regulations, and believe we have adequate compliance programs and controls in place to ensure substantial compliance, we cannot predict whether changes in applicable law, or interpretation of laws, or changes in our services or marketing practices in response to changes in applicable law or interpretation of laws, could have a material adverse effect on our business.

If we fail to comply with laws and regulations relating to the confidentiality of sensitive personal information or standards in electronic health data transmissions, we could be required to make significant changes to our products, or incur substantial fines, penalties or other liabilities.

The FDA has become increasingly active in addressing the regulation of computer software intended for use in health care settings, and has developed and continues to develop policies on regulating clinical decision support tools and other types of software as medical devices. Certain of our businesses involve the development and sale of software and related products to support physician and dental practice management, and it is possible that the FDA or foreign government authorities could determine that one or more of our products is a medical device, which could subject us or one or more of our businesses to substantial additional requirements with respect to these products.

Our businesses that involve physician and dental practice management products include electronic information technology systems that store and process personal health, clinical, financial and other sensitive information of individuals. These information technology systems may be vulnerable to breakdown, wrongful intrusions, data breaches and malicious attack, which could require us to expend significant resources to eliminate these problems and address related security concerns, and could involve claims against us by private parties and/or governmental agencies. For example, we are directly or indirectly subject to numerous federal, state, local and foreign laws and regulations that protect the privacy and security of such information, such as HIPAA. HIPAA requires, among other things, the implementation of various recordkeeping, operational, notice and other practices intended to safeguard that information, limit its use to allowed purposes and notify individuals in the event of privacy and security breaches. Failure to comply with these laws and regulations could expose us to breach of contract claims, substantial fines, penalties and other liabilities and expenses, costs for remediation and harm to our reputation. Also, evolving laws and regulations in this area could restrict the ability of our customers to obtain, use or disseminate patient information, or could require us to incur significant additional costs to re-design our products in a timely manner to reflect these legal requirements, either of which could have a material adverse effect on our results of operations.

Other health information standards, such as regulations under HIPAA, establish standards regarding electronic health data transmissions and transaction code set rules for specific electronic transactions, such as transactions involving claims submissions to third party payers. Certain of our businesses provide electronic practice management products that must meet these requirements. Failure to abide by electronic health data transmission standards could expose us to breach of contract claims, substantial fines, penalties and other liabilities and expenses, costs for remediation and harm to our reputation.

The market price for our common stock may be highly volatile.

In addition, the European Parliament and the Council of the European Union have adopted the GDPR, effective from May 25, 2018, which increases privacy rights for individuals in Europe, extends the scope or responsibilities for data controllers and data processors and imposes increased requirements and potential penalties on companies offering goods or services to Data Subjects or monitoring the behavior of such individuals (including by companies based outside of Europe). Noncompliance can result in penalties of up to the greater of EUR 20 million, or 4% of global company revenues. Individual member states may impose additional requirements and penalties as they relate to certain things such as employee personal data. Among other things, the GDPR requires with respect to data concerning Data Subjects, company accountability, consents from Data Subjects or other acceptable legal basis needed to process the personal data, prompt breach notifications within 72 hours, fairness and transparency in how the personal data is stored, used or otherwise processed, and data integrity and security, and provides rights to Data Subjects relating to modification, erasure and transporting of the personal data. While we expect to have substantially compliant programs and controls in place to comply with the GDPR requirements, our compliance with the new regulation is likely to impose additional costs on us, and we cannot predict whether the interpretations of the requirements, or changes in our practices in response to new requirements or interpretations of the requirements, could have a material adverse effect on our business.

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We also sell products and services that health care providers, such as physicians and dentists, use to store and manage patient medical or dental records. These customers are subject to laws, regulations and industry standards, such as HIPAA and the Payment Card Industry Data Security Standards, which require that they protect the privacy and security of those records, and our products may be used as part of these customers' comprehensive data security programs, including in connection with their efforts to comply with applicable privacy and security laws. Perceived or actual security vulnerabilities in our products or services, or the perceived or actual failure by us or our customers who use our products to comply with applicable legal or contractual requirements, may not only cause us significant reputational harm, but may also lead to claims against us by our customers and/or governmental agencies and involve substantial fines, penalties and other liabilities and expenses and costs for remediation.

In addition, federal initiatives provide a program of incentive payments available to certain health care providers involving the adoption and use of certain electronic health care records systems and processes. The initiatives include providing, among others, physicians and dentists, with financial incentives if they meaningfully use certified EHR systems in accordance with applicable and evolving requirements. In addition, Medicare-eligible providers that fail to timely adopt certified EHR systems and meet "meaningful use" requirements for those systems in accordance with regulatory requirements are to be subject to cumulative Medicare reimbursement reductions, which reductions for applicable health professionals (including physicians and dentists) began on January 1, 2015. Qualification for the incentive payments requires the use of EHRs that have certain capabilities for meaningful use pursuant to evolving standards adopted by CMS and ONC. In order to maintain certification of our EHR products, we must satisfy these changing governmental criteria. Certain of our businesses involve the manufacture and sale of certified EHR systems and other products linked to incentive programs. CMS and ONC establish criteria for certified EHR systems and these criteria have been subject to change. In order to maintain certification of our EHR products, we must satisfy these changing governmental criteria. If any of our EHR systems do not meet these standards, yet have been relied upon by health care providers to receive federal incentive payments, as noted above, we are exposed to risk under federal health care fraud and abuse laws, such as the False Claims Act. For example, on May 31, 2017, the U.S. Department of Justice announced a \$155 million settlement and 5-year corporate integrity agreement involving a vendor of certified EHR systems, based on allegations that the vendor, by misrepresenting capabilities to the certifying body, caused its health care provider customers to submit false Medicare and Medicaid claims for meaningful use payments in violation of the False Claims Act. While we believe we are substantially in compliance with such certifications and with applicable fraud and abuse laws and regulations and we have adequate compliance programs and controls in place to ensure substantial compliance, we cannot predict whether changes in applicable law, or interpretation of laws, or changes in our practices in response to changes in applicable law or interpretation of laws, could have a material adverse effect on our business. Moreover, in order to satisfy our customers, our products may need to incorporate increasingly complex reporting functionality. Although we believe we are positioned to accomplish this, the effort may involve increased costs, and our failure to implement product modifications, or otherwise satisfy applicable standards, could have a material adverse effect on our business. Moreover in order to satisfy our customers, our products may need to incorporate increasingly complex reporting functionality. Although we believe we are positioned to accomplish this, the effort may involve increased costs, and our failure to implement product modifications, or otherwise satisfy applicable standards, could have a material adverse effect on our business.

On October 6, 2015, CMS and ONC released comprehensive final rules with respect to the EHR program that, among other things, established the more challenging “Stage 3” criteria, making certain adjustments to Stage 1 and Stage 2 standards (e.g., reducing the 2015 reporting period from a full year to 90 days), and finalized 2015 edition health technology (HIT) certification criteria (which is now added to the existing 2014 edition HIT certification criteria, but not required until 2018). Notably, under the new rules, compliance with Stage 3 standards is optional for providers in 2017, and would generally be required for all eligible providers (regardless of prior participation in the EHR incentive program) for 2018 reporting periods and subsequently. Developers and others involved in the manufacture of EHR program technology will have this interim period to develop and certify products, and work with customers to implement products for the 2018 EHR program period. In connection with the release of the October 6 rules, HHS has also stated it will continue to modify applicable EHR program standards. On November 14, 2016, CMS published a final rule that will impact Medicare and Medicaid EHR incentive programs

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through revisions to the objectives and measures for eligible hospitals, critical access hospitals, and dual-eligible hospitals.

The use of certified EHR technology will continue as a feature of MACRA's MIPS programs, and in connection with this, Medicare EHR program payment adjustments to eligible professionals will sunset at the end of 2018 and MIPS payment adjustments will begin on January 1, 2019. The first performance period for MIPS began January 1, 2017, and will afford eligible clinicians different reporting options linked to the amount of data reported and the duration of the reporting period, with positive payment adjustments generally linked to more robust reporting. Certain of our businesses involve the manufacture and sale of certified EHR systems and other products linked to incentive programs, and therefore we must maintain compliance with, and are affected by, these changing governmental criteria.

Additionally, as electronic medical devices are increasingly connected to each other and to other technology, the ability of these connected systems safely and effectively to exchange and use exchanged information becomes increasingly important. On September 6, 2017, the FDA issued guidance to assist industry in identifying specific considerations related to the ability of electronic medical devices to safely and effectively exchange and use exchanged information. As a medical device manufacturer, we must manage risks including those associated with an electronic interface that is incorporated into a medical device.

There may be additional legislative or regulatory initiatives in the future impacting health care.

Our global operations are subject to inherent risks that could materially adversely affect our business.

Global operations are subject to risks that may materially adversely affect our business. The risks that our global operations are subject to include, among other things:

- difficulties and costs relating to staffing and managing foreign operations;
- difficulties in establishing channels of distribution;
- fluctuations in the value of foreign currencies;

The market price for our common stock may be highly volatile.

- longer payment cycles of foreign customers and difficulty of collecting receivables in foreign jurisdictions;
- repatriation of cash from our foreign operations to the United States;
- regulatory requirements;
- anti-bribery, anti-corruption and laws pertaining to the accuracy of our internal books and records;
- unexpected difficulties in importing or exporting our products;
- imposition of import/export tariffs, quotas, sanctions or penalties;
- difficulties and delays inherent in sourcing products and contract manufacturing in foreign markets;
- limitations on our ability under local laws to protect our intellectual property;
- unexpected regulatory, legal, economic and political changes in foreign markets;
- changes in tax regulations that influence purchases of capital equipment;
- civil disturbances, geopolitical turmoil, including terrorism, war or political or military coups; and
- public health emergencies.

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Our expansion through acquisitions and joint ventures involves risks.

We have expanded our domestic and international markets in part through acquisitions and joint ventures, and we expect to continue to make acquisitions and enter into joint ventures in the future. Such transactions involve numerous risks, including possible material adverse effects on our financial results or the market price of our common stock. Some of our acquisitions and future acquisitions may also give rise to an obligation by us to make contingent payments or to satisfy certain repurchase obligations, which payments could have a material adverse effect on our financial results. In addition, integrating acquired businesses and joint ventures:

- may result in a loss of customers or product lines of the acquired businesses or joint ventures;
- requires significant management attention;
- may place significant demands on our operations, information systems and financial resources; and
- results in additional acquisition and integration expenses.

There can be no assurance that our future acquisitions or joint ventures will be successful. Our ability to continue to successfully effect acquisitions and joint ventures will depend upon the following:

- the availability of suitable acquisition or joint venture candidates at acceptable prices;
- our ability to consummate such transactions, which could potentially be prohibited due to U.S. or foreign antitrust regulations;
- the availability of financing on acceptable terms, in the case of non-stock transactions;
- the liquidity of our investments and our ability to raise capital could be affected by the financial credit markets; and
- our ability to retain, recruit and incentivize the management of the companies we acquire.

The market price for our common stock may be highly volatile.

Our acquisitions may not result in the benefits and revenue growth we expect.

We are in the process of integrating companies that we acquired and including the operations, services, products and personnel of each company within our management policies, procedures and strategies. We cannot be sure that we will achieve the benefits of revenue growth that we expect from these acquisitions or that we will not incur unforeseen additional costs or expenses in connection with these acquisitions. To effectively manage our expected future growth, we must continue to manage successfully our integration of these companies and continue to improve our operational systems, internal procedures, working capital management and financial and operational controls. If we fail in any of these areas, our business could be materially adversely affected.

We face inherent risk of exposure to product liability, intellectual property infringement and other claims in the event that the use of the products we sell results in injury.

Our business involves a risk of product liability, intellectual property infringement and other claims in the ordinary course of business, and from time to time we are named as a defendant in cases as a result of our distribution of products. Additionally, we own interests in companies that manufacture certain dental products. As a result, we are subject to the potential risk of product liability, intellectual property infringement or other claims relating to the manufacture and distribution of products by those entities. Additionally, as our private-label business continues to grow, purchasers of such products may increasingly seek recourse directly from us, rather than the ultimate product manufacturer, for product-related claims. Another potential risk we face in the distribution of our products is liability resulting from counterfeit or tainted products infiltrating the supply chain. In addition, some of the products that we transport and sell are considered hazardous materials. The improper handling of such materials or accidents involving the transportation of such materials could subject us to liability. In addition, our reputation could be adversely affected by negative publicity surrounding such events regardless of whether or not claims against us are successful. We have various insurance policies, including product liability insurance, covering risks and in amounts that we consider adequate. In many cases in which we have been sued in

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connection with products manufactured by others, the manufacturer of the product provides us with indemnification. There can be no assurance that the insurance coverage we maintain is sufficient or will be available in adequate amounts or at a reasonable cost, or that indemnification agreements will provide us with adequate protection. A successful claim brought against us in excess of available insurance or not covered by indemnification agreements, or any claim that results in significant adverse publicity against us, could have a material adverse effect on our business and our reputation.

Our technology segment depends upon continued software and e-services product development, technical support and successful marketing.

Competition among companies supplying practice management software and/or e-services is intense and increasing. Our future sales of practice management software and e-services will depend on, among other factors:

- the effectiveness of our sales and marketing programs;

- our ability to enhance our products and services to satisfy customer requirements; and

- our ability to provide ongoing technical support.

We cannot be sure that we will be successful in introducing and marketing new software, software enhancements or e-services, or that such software, software enhancements and e-services will be released on time or accepted by the market. Our software and applicable e-services products, like software products generally, may contain undetected errors or bugs when introduced or as new versions are released. We cannot be sure that future problems with post-release software errors or bugs will not occur. Any such defective software may result in increased expenses related to the software and could adversely affect our relationships with the customers using such software as well as our reputation. We do not have any patents on our software or e-services, and rely upon copyright, trademark and trade secret laws, as well as contractual and common law protections. We cannot provide assurance that such legal protections will be available or enforceable to protect our software or e-services products.

We rely on third parties for certain technologically advanced products.

The market price for our common stock may be highly volatile.

Some of our products contain technologically advanced components, including software, that are developed by third parties. We may not be able to replace the functions provided by these third-party components or products if they become obsolete, defective or incompatible with future versions of our products or with our services and solutions, or if they are not adequately maintained or updated.

In addition, third-party suppliers of software or other intellectual property assets could be unwilling to permit us to use their intellectual property and this could impede or disrupt use of their products or services by us and our customers. Alternate sources for the technology currently provided by third parties to us may not be available to us in a timely manner, and may not provide us with the same functions as currently provided to us or may be more expensive than products we currently use or sell.

Further, the risk of intellectual property infringement claims against us may increase as we expand our business to include more technologically advanced products and continue to incorporate third party components, software and/or other intellectual property into the products we sell. Also, individuals and firms have purchased intellectual property assets in order to assert claims of infringement against technology providers and customers that use such technology. Any infringement action brought against us or our customers could be costly to defend or lead to an expensive settlement or judgment against us.

The risks described above could have a material adverse effect on our business, financial condition or operating results and our reputation.

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We may experience competition from third-party online commerce sites.

Traditional health care supply and distribution relationships are being challenged by electronic online commerce solutions. The continued advancement of online commerce by third parties will require us to cost-effectively adapt to changing technologies, to enhance existing services and to differentiate our business (including with additional value-added services) to address changing demands of consumers and our customers on a timely basis. The emergence of such potential competition and our inability to anticipate and effectively respond to changes on a timely basis could have a material adverse effect on our business.

Security risks generally associated with our information systems and our technology products and services could materially adversely affect our business, and our results of operations could be materially adversely affected if our information systems (or third-party systems we rely on) are interrupted, damaged by unforeseen events, are subject to cyberattacks or fail for any extended period of time.

We rely on information systems (IS) in our business to obtain, rapidly process, analyze, manage and store data to, among other things:

- maintain and manage worldwide systems to facilitate the purchase and distribution of thousands of inventory items from numerous distribution centers;
- receive, process and ship orders on a timely basis;
- manage the accurate billing and collections for thousands of customers;
- process payments to suppliers; and
- provide products and services that maintain certain of our customers' electronic medical or dental records (including protected health information of their patients).

Information security risks have generally increased in recent years, and a cyberattack that bypasses our IS security systems causing an IS security breach may lead to a material disruption of our IS business systems and/or the loss of business information resulting in a material adverse effect on our business.

In addition, we develop products and provide services to our customers that are technology-based, and a cyberattack that bypasses the IS security systems of our products or services causing a security breach and/or perceived security vulnerabilities in our products or services could also cause significant reputational harm, and actual or perceived vulnerabilities may lead to claims against us by our customers and/or governmental agencies. In particular, certain of our practice management products and services purchased by health care providers, such as physicians and dentists,

We may experience competition from third-party online commerce sites.

are used to store and manage patient medical or dental records. These customers are subject to laws and regulations, such as HIPAA, which require that they protect the privacy and security of those records, and our products may be used as part of these customers' comprehensive data security programs, including in connection with their efforts to comply with applicable privacy and security laws. Perceived or actual security vulnerabilities in our products or services, or the perceived or actual failure by us or our customers who use our products to comply with applicable legal requirements, may not only cause us significant reputational harm, but may also lead to claims against us by our customers and/or governmental agencies and involve fines and penalties, costs for remediation, and substantial defense and settlement expenses.

Regarding direct customer claims, although our customer license agreements typically contain provisions that seek to eliminate or limit our exposure to such liability, there is no assurance these provisions will withstand legal challenges, or that we will be able to obtain such provisions in all cases.

In addition, our information systems also utilize certain third party service organizations that manage a portion of our information systems, and our business may be materially adversely affected if these third party service organizations are subject to an IS security breach. Additionally, legislative or regulatory action related to cybersecurity may increase our costs to develop or implement new technology products and services.

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Risks associated with these and other IS security breaches may include, among other things:

- future results could be materially adversely affected due to the theft, destruction, loss, misappropriation or release of confidential data or intellectual property;
- operational or business delays resulting from the disruption of information systems and subsequent clean-up and mitigation activities;
- procedures and safeguards must continually evolve to meet new IS challenges, and enhancing protections, and conducting investigations and remediation, may impose additional costs on us;
- we may incur claims, fines and penalties, and costs for remediation, or substantial defense and settlement expenses; and
- negative publicity resulting in reputation or brand damage with our customers, partners or industry peers.

We also deliver Internet-based services and, accordingly, depend on our ability and the ability of our customers to access the Internet. In the event of any difficulties, outages and delays by Internet service providers, we may be impeded from providing such services, which may have a material adverse effect on our business and our reputation.

We have various insurance policies, including cyber liability insurance, covering risks and in amounts that we consider adequate. There can be no assurance that the insurance coverage we maintain is sufficient or will be available in adequate amounts or at a reasonable cost. Successful claims for misappropriation or release of confidential or personal data brought against us in excess of available insurance or fines or other penalties assessed or any claim that results in significant adverse publicity against us could have a material adverse effect on our business and our reputation.

Certain provisions in our governing documents and other documents to which we are a party may discourage third-party offers to acquire us that might otherwise result in our stockholders receiving a premium over the market price of their shares.

The provisions of our certificate of incorporation and by-laws may make it more difficult for a third party to acquire us, may discourage acquisition bids and may limit the price that certain investors might be willing to pay in the future

We may experience competition from third-party online commerce sites.

for shares of our common stock. These provisions, among other things:

- require the affirmative vote of the holders of at least 60% of the shares of common stock entitled to vote to approve a merger, consolidation, or a sale, lease, transfer or exchange of all or substantially all of our assets; and
- require the affirmative vote of the holders of at least 66 2/3% of our common stock entitled to vote to (i) remove a director; and (ii) to amend or repeal our by-laws, with certain limited exceptions.

In addition, our 2013 Stock Incentive Plan and 2015 Non-Employee Director Stock Incentive Plan provide for accelerated vesting of stock options upon a change in control. These incentive plans also authorize the committee under the plans to provide for accelerated vesting of other types of equity awards in connection with a change in control at grant or thereafter, and certain other awards made under these incentive plans (such as restricted stock/unit awards) accelerate upon a change in control or upon certain termination events in connection with a change in control. Further, certain agreements between us and our executive officers provide for increased severance payments and certain benefits if those executive officers are terminated without cause by us or if they terminate for good reason, in each case within two years after a change in control or within ninety days prior to the effective date of the change in control or after the first public announcement of the pendency of the change in control.

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Tax legislation could materially adversely affect our financial results and tax liabilities.

We are subject to the tax laws and regulations of the United States federal, state and local governments, as well as foreign jurisdictions. From time to time, various legislative initiatives may be proposed that could materially adversely affect our tax positions. There can be no assurance that our effective tax rate will not be materially adversely affected by legislation resulting from these initiatives. On December 22, 2017, the President signed the Tax Cuts and Jobs Act into law, which contains a broad range of tax reform provisions that impact the individual and corporate tax rates, international tax provisions, income tax add-back provisions and deductions. We are still analyzing the complex new law to determine its impact. In addition, tax laws and regulations are extremely complex and subject to varying interpretations. Although we believe that our historical tax positions are sound and consistent with applicable laws, regulations and existing precedent, there can be no assurance that our tax positions will not be challenged by relevant tax authorities or that we would be successful in any such challenge.

Item 1B. Unresolved Staff Comments

We have no unresolved comments from the staff of the SEC that were issued 180 days or more preceding the end of our 2017 fiscal year.

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ITEM 2. Properties

We own or lease the following properties with more than 100,000 square feet:

| Property | Location |
|--------------------------------------|--------------------|
| Corporate Headquarters | Melville, NY |
| Corporate Headquarters | Melville, NY |
| Office and Distribution Center | Lyssac, France |
| Office and Distribution Center | Plymouth, MA |
| Office and Distribution Center | Tours, France |
| Office and Distribution Center | Gillingham, UK |
| Office and Distribution Center | Fiumicino, Italy |
| Office and Distribution Center | Eastern, NY |
| Office and Distribution Center | Lange, Germany |
| Office and Distribution Center | Niagara Falls, NY |
| Office and Distribution Center | Bastia, France |
| Office and Distribution Center | West A, NY |
| Office and Distribution Center | Cuijk, Netherlands |
| Distribution Center | Denver, CO |
| Distribution Center | Indianapolis, IN |
| Distribution Center | Sparks, NV |
| Distribution Center | Indianapolis, IN |
| Distribution Center | Grapevine, TX |
| Distribution Center | Gallatin, MT |
| Distribution Center | Jacksonville, FL |
| Distribution Center | Heppner, OH |
| Distribution Center | Fort Worth, TX |

The properties listed in the table above are our principal properties primarily used by our health care distribution segment. In addition, we lease numerous other distribution, office, showroom, manufacturing and sales space in locations including the United States, Australia, Austria, Belgium, Brazil, Canada, Chile, China, the Czech Republic, Denmark, France, Germany, Hong Kong SAR, Ireland, Israel, Italy, Japan, Liechtenstein, Luxembourg, Malaysia, the Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Slovakia, South Africa, Spain, Sweden, Switzerland, Thailand, United Arab Emirates and the United Kingdom.

We believe that our properties are in good condition, are well maintained and are suitable and adequate to carry on our business. We have additional operating capacity at certain distribution center facilities.

We may experience competition from third-party online commerce sites.

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ITEM 3. Legal Proceedings

Beginning in January 2016, class action complaints were filed against Patterson Companies, Inc. (“Patterson”), Benco Dental Supply Co. (“Benco”) and Henry Schein, Inc. Each of these complaints allege, among other things, that defendants conspired to fix prices, allocate customers and foreclose competitors by boycotting manufacturers, state dental associations and others that deal with defendants’ competitors. Subject to certain exclusions, these classes seek to represent all persons who purchased dental supplies or equipment in the United States directly from any of the defendants or Burkhart Dental Supply Co. (“Burkhart”) since August 31, 2008. Each class action complaint asserts a single count under Section 1 of the Sherman Act, and seeks equitable relief, compensatory and treble damages, jointly and severally, and reasonable costs and expenses, including attorneys’ fees and expert fees. We intend to defend ourselves vigorously against these actions.

On August 31, 2012, Archer and White Sales, Inc. (“Archer”) filed a complaint against Henry Schein, Inc. as well as Danaher Corporation and its subsidiaries Instrumentarium Dental, Inc., Dental Equipment, LLC, Kavo Dental Technologies, LLC and Dental Imaging Technologies Corporation (collectively, the “Danaher Defendants”) in the United States District Court for the Eastern District of Texas, Civil Action No. 2:12-CV-00572-JRG, styled as an antitrust action under Section 1 of the Sherman Act, and the Texas Free Enterprise Antitrust Act. Archer alleges a conspiracy between Henry Schein, Inc., an unnamed company and the Danaher Defendants to terminate or limit Archer’s distribution rights. On October 1, 2012, Henry Schein filed a motion for an order: (i) compelling Archer to arbitrate its claims against Henry Schein; (2) staying all proceedings pending arbitration; and (3) joining the Danaher Defendants’ motion to arbitrate and stay. On May 28, 2013, the Magistrate Judge granted the motions to arbitrate and stayed proceedings pending arbitration. On June 10, 2013, Archer moved for reconsideration before the District Court judge. On December 7, 2016, the District Court Judge granted Archer’s motion for reconsideration and lifted the stay. Defendants appealed the District Court’s order. On December 21, 2017, the United States Court of Appeals for the Fifth Circuit affirmed the District Court’s order denying the motions to compel arbitration. On February 12, 2018, defendants filed an Application for Stay of Proceedings in the District Court in the Supreme Court of the United States, seeking to stay proceedings in the District Court pending a decision on defendants’ forthcoming petition for writ of certiorari.

On August 1, 2017, Archer filed an amended complaint, adding Patterson and Benco as defendants, and alleging that Henry Schein, Inc., Patterson, Benco and Burkhart conspired to fix prices and refused to compete with each other for sales of dental equipment to dental professionals and agreed to enlist their common suppliers, the Danaher Defendants, to join a price-fixing conspiracy and boycott by reducing the distribution territory of, and eventually terminating, their price-cutting competing distributor Archer. Archer seeks injunctive relief, and damages in an amount to be proved at trial, to be trebled with interest and costs, including attorneys’ fees, jointly and severally.

On October 30, 2017, Archer filed a second amended complaint under seal, to add additional allegations that it believes support its claims. The named parties and causes of action are the same as the August 1, 2017 amended complaint. Trial is currently scheduled for May 2018. We intend to defend ourselves vigorously against this action.

On August 17, 2017, IQ Dental Supply, Inc. (“IQ Dental”) filed a complaint in the United States District Court for the Eastern District of New York, entitled IQ Dental Supply, Inc. v. Henry Schein, Inc., Patterson Companies, Inc. and Benco Dental Supply Company, Case No. 2:17-cv-4834. Plaintiff alleges that it is a distributor of dental supplies and equipment, and sells dental products through an online dental distribution platform operated by SourceOne Dental

We may experience competition from third-party online commerce sites.

(“SourceOne”). SourceOne had previously brought an antitrust lawsuit against the Company, Patterson and Benco which the Company settled in the second quarter of 2017 and which is described in the Company’s prior filings with the SEC.

IQ Dental alleges, among other things, that defendants conspired to suppress competition from IQ Dental and SourceOne for the marketing, distribution and sale of dental supplies and equipment in the United States, and that defendants unlawfully agreed with one another to boycott dentists, manufacturers and state dental associations that deal with, or considered dealing with, plaintiff and SourceOne. Plaintiff claims that this alleged conduct constitutes unreasonable restraint of trade in violation of Section 1 of the Sherman Act, New York’s Donnelly Act and the New Jersey Antitrust Act, and also makes pendant state law claims for tortious interference with prospective business relations, civil conspiracy and aiding and abetting. Plaintiff seeks injunctive relief,

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compensatory, treble and punitive damages, jointly and severally, and reasonable costs and expenses, including attorneys' fees and expert fees. On December 21, 2017, the District Court granted the defendants' motion to dismiss. On January 19, 2018, IQ Dental appealed the District Court's order. We intend to vigorously defend ourselves against this action.

On February 12, 2018, the United States Federal Trade Commission ("FTC") filed a complaint against Benco Dental Supply Co., Henry Schein, Inc. and Patterson Companies, Inc. The FTC alleges, among other things, that defendants violated U.S. antitrust laws by conspiring, and entering into an agreement, to refuse to provide discounts to or otherwise serve buying groups representing dental practitioners. The FTC alleges that defendants conspired in violation of Section 5 of the FTC Act. The complaint seeks equitable relief only and does not seek monetary damages. We deny the allegation that we conspired to refuse to provide discounts to or otherwise serve dental buying groups and intend to defend ourselves vigorously against this action. The Company believes this matter will not have a material adverse effect on our financial condition or results of operations.

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 financial condition or results of operations.

As of December 30, 2017, we had accrued our best estimate of potential losses relating to claims that were probable to result in liability and for which we were able to reasonably estimate a loss. This accrued amount, as well as related expenses, was not material to our financial position, results of operations or cash flows. Our method for determining estimated losses considers currently available facts, presently enacted laws and regulations and other factors, including probable recoveries from third parties.

ITEM 4. Mine Safety Disclosures

Not applicable.

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On August 16, 2017, we announced that our Board of Directors approved a two-for-one stock split of our common stock. Each Henry Schein, Inc. stockholder of record at the close of business on September 1, 2017 received a distribution of one additional share for every share held. Trading began on a split-adjusted basis on September 15, 2017. The effects of the stock split on share and per share amounts have been retroactively reflected for all periods presented in this form 10-K.

Our common stock is traded on the NASDAQ Global Select Market tier of the NASDAQ Stock Market, or NASDAQ, under the symbol HSIC. On October 2, 2007, our common stock became a component of the NASDAQ-100 stock market index. The following table sets forth, for the periods indicated, the high and low reported sales prices of our common stock as reported on NASDAQ for each quarterly period in fiscal 2017 and 2016:

| | High | L |
|-------------------|---------|----|
| Fiscal 2017: | | |
| 1st Quarter | \$88.25 | \$ |
| 2nd Quarter | 93.50 | |
| 3rd Quarter | 93.14 | |
| 4th Quarter | 84.88 | |
| Fiscal 2016: | | |
| 1st Quarter | \$85.12 | \$ |
| 2nd Quarter | 90.49 | |
| 3rd Quarter | 91.50 | |
| 4th Quarter | 82.24 | |

On February 15, 2018, there were approximately 467 holders of record of our common stock and the last reported sales price was \$68.38.

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Purchases of Equity Securities by the Issuer

Our share repurchase program, announced on June 21, 2004, originally allowed us to repurchase up to \$100 million of shares of our common stock, which represented approximately 3.5% of the shares outstanding at the commencement of the program. As summarized in the table below, subsequent additional increases totaling \$2.8 billion, authorized by our Board of Directors, to the repurchase program provide for a total of \$2.9 billion of shares of our common stock to be repurchased under this program.

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

As of December 30, 2017, we had repurchased approximately \$2.7 billion of common stock (55,670,990 shares) under these initiatives, with \$200.0 million available for future common stock share repurchases.

The following table summarizes repurchases of our common stock under our stock repurchase program during the fiscal quarter ended December 30, 2017:

| Fiscal Month | Total Number of Shares Purchased (1) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Our Publicly Announced Program | Maximum Number of Shares that May Yet Be Purchased Under Our Program (2) |
|---------------------------|--------------------------------------|------------------------------|--|--|
| 10/01/17 through 11/04/17 | | \$ - | | 5,473,914 |
| 11/05/17 through 12/02/17 | 1,821,631 | 68.62 | 1,821,631 | 4,245,684 |

We may experience competition from third-party online commerce sites.

| | | | | |
|------------------|-----------|-------|-----------|-----------|
| 12/03/17 through | | | | |
| 12/30/17 | 1,417,543 | 70.54 | 1,417,543 | 2,862,051 |
| | 3,239,174 | | 3,239,174 | |

- (1) All repurchases were executed in the open market under our existing publicly announced authorized program.
- (2) The maximum number of shares that may yet be purchased under this program is determined at the end of each month based on the closing price of our common stock at that time.

Dividend Policy

We have not declared any cash or stock dividends on our common stock during fiscal years 2017 or 2016. We currently do not anticipate declaring any cash or stock dividends on our common stock in the foreseeable future. We intend to retain earnings to finance the expansion of our business and for general corporate purposes, including our share repurchase program. Any declaration of dividends will be at the discretion of our Board of Directors and will depend upon the earnings, financial condition, capital requirements, level of indebtedness, contractual restrictions with respect to payment of dividends and other factors.

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Stock Performance Graph

The graph below compares the cumulative total stockholder return on \$100 invested, assuming the reinvestment of all dividends, on December 29, 2012, the last trading day before the beginning of our 2013 fiscal year, through the end of our 2017 fiscal year with the cumulative total return on \$100 invested for the same period in the Dow Jones U.S. Health Care Index and the NASDAQ Stock Market Composite Index.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN

ASSUMES \$100 INVESTED ON DECEMBER 29, 2012
 ASSUMES DIVIDENDS REINVESTED

| | |
|--|-----------------------------|
| | Dec 29, 2012 \$100 |
| Henry Schein, Inc. | 100 |
| Dow Jones U.S. Health Care Index | 100 |
| NASDAQ Stock Market Composite Index | 100 |

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ITEM 6. Selected Financial Data

The following selected financial data, with respect to our financial position and results of operations for each of the five fiscal years in the period ended December 30, 2017, set forth below, has been derived from, should be read in conjunction with and is qualified in its entirety by reference to, our consolidated financial statements and notes thereto. The selected financial data presented below should also be read in conjunction with ITEM 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and ITEM 8, “Financial Statements and Supplementary Data.”

Income Statement Data:

| | |
|--|-------|
| Net sales ..... | ..... |
| Gross profit ..... | ..... |
| Selling, general and administrative expenses (5)..... | ..... |
| Restructuring costs (1) ..... | ..... |
| Operating income ..... | ..... |
| Other expense, net (2) ..... | ..... |
| Income before taxes and equity in earnings of affiliates ..... | ..... |
| Income taxes (3) ..... | ..... |
| Equity in earnings of affiliates ..... | ..... |
| Loss on sale of equity investment (4) ..... | ..... |
| Net income ..... | ..... |
| Less: Net income attributable to noncontrolling interests ..... | ..... |
| Net income attributable to Henry Schein, Inc. .... | ..... |

Earnings per share attributable to
Henry Schein, Inc.: (6)

| | |
|---------------|-------|
| Basic | |
| Diluted | |

Weighted-average common shares outstanding:

| | |
|---------------|-------|
| Basic | |
| Diluted | |

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Net Sales by Market Data:

Health care distribution (7):

| | |
|---|--|
| Dental | |
| Animal health | |
| Medical | |
| Total health care distribution | |
| Technology and value-added services (8) | |
| Total | |

Balance Sheet data:

| | |
|---|--|
| Total assets | |
| Long-term debt | |
| Redeemable noncontrolling interests | |
| Stockholders' equity | |

(1)Restructuring costs for the year ended December 31, 2016 consist primarily of severance costs, including severance pay and benefits of \$40.7 million, facility closing costs of \$3.6 million and other costs of \$1.6 million. Restructuring costs for the year ended December 26, 2015 consist primarily of severance costs, including severance pay and benefits of \$26.7 million, facility closing costs of \$5.7 million and other costs of \$2.5 million. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Plans of Restructuring” herein and the consolidated financial statements and related notes contained in ITEM 8.

(2)Includes approximately \$6.2 million of one-time expenses related to the refinancing of Henry Schein Animal Health debt in 2013. These expenses reflect the non-cash write-off of deferred financing costs.

(3)In 2017 there was an estimated one-time-charge of \$140 million related to the transition tax on deemed repatriated foreign earnings and a one-time charge of \$3.0 million for the revaluation of deferred taxes associated with U.S. tax reform legislation. In 2015, there was a \$6.3 million income tax benefit related to a favorable response to a tax petition, which allowed us to conclude that it is was more likely than not that certain unrecognized tax benefits, which had been previously reserved, would be realized. In 2013, there was a \$13.4 million reduction of our valuation allowance related to certain deferred tax assets related to tax loss carryforwards originating outside the United States.

- (4) Represents a 2017 loss on divestiture of an equity ownership in E4D Technologies and a 2013 loss on divestiture of a noncontrolling interest in a dental wholesale distributor in the Middle East.
- (5) Includes a pre-tax charge of \$5,325 related to a litigation settlement in 2017.
- (6) On August 16, 2017, we announced that our Board of Directors approved a two-for-one stock split of our common stock. Each Henry Schein, Inc. stockholder of record at the close of business on September 1, 2017 received a distribution of one additional share for every share held. Trading began on a split-adjusted basis on September 15, 2017. The effects of the stock split on share and per share amounts have been retroactively reflected for all periods presented in this Form 10-K.
- (7) Consists of consumable products, small equipment, laboratory products, large equipment, equipment repair services, branded and generic pharmaceuticals, vaccines, surgical products, diagnostic tests, infection-control products and vitamins.
- (8) Consists of practice management software and other value-added products, which are distributed primarily to health care providers, and financial services on a non-recourse basis, e-services, continuing education services for practitioners, consulting and other services.

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ITEM 7. 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 identified by the use of such terms as "may," "could," "expect," "intend," "believe," "plan," "estimate," "forecast," "project," "anticipate" or other comparable terms. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Annual Report on Form 10-K, and in particular the risks discussed under the caption "Risk Factors" in Item 1A of this report and those discussed in other documents we file with the Securities and Exchange Commission (SEC).

Risk factors and uncertainties that could cause actual results to differ materially from current and historical results include, but are not limited to: effects of a highly competitive and consolidating market; our dependence on third parties for the manufacture and supply of our products; our dependence upon sales personnel, customers, suppliers and manufacturers; our dependence on our senior management; fluctuations in quarterly earnings; risks from expansion of customer purchasing power and multi-tiered costing structures; increases in shipping costs for our products or other service issues with our third-party shippers; general global macro-economic conditions; risks associated with currency fluctuations; risks associated with political and economic uncertainty; disruptions in financial markets; volatility of the market price of our common stock; changes in the health care industry; implementation of health care laws; failure to comply with regulatory requirements and data privacy laws; risks associated with our global operations; transitional challenges associated with acquisitions and joint ventures, including the failure to achieve anticipated synergies; financial risks associated with acquisitions and joint ventures; litigation risks; new or unanticipated litigation developments; the dependence on our continued product development, technical support and successful marketing in the technology segment; our dependence on third parties for certain technologically advanced components; increased competition by third party online commerce sites; risks from disruption to our information systems; cyberattacks or other privacy or data security breaches; certain provisions in our governing documents that may discourage third-party acquisitions of us; and changes in tax legislation. The order in which these factors appear should not be construed to indicate their relative importance or priority.

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

We may experience competition from third-party online commerce sites.

Where You Can Find Important Information

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

Executive-Level Overview

We believe we are the world's largest provider of health care products and services primarily to office-based dental, animal health and medical practitioners. We serve more than 1 million customers worldwide including dental practitioners and laboratories, animal health clinics and physician practices, as well as government, institutional health care clinics and other alternate care clinics. We believe that we have a strong brand identity due to our more than 85 years of experience distributing health care products.

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We are headquartered in Melville, New York, employ more than 22,000 people (of which more than 11,400 are based outside the United States) and have operations or affiliates in 34 countries, including the United States, Australia, Austria, Belgium, Brazil, Canada, Chile, China, the Czech Republic, Denmark, France, Germany, Hong Kong SAR, Ireland, Israel, Italy, Japan, Liechtenstein, Luxembourg, Malaysia, the Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Slovakia, South Africa, Spain, Sweden, Switzerland, Thailand, United Arab Emirates and the United Kingdom.

We have established strategically located distribution centers to enable us to better serve our customers and increase our operating efficiency. This infrastructure, together with broad product and service offerings at competitive prices, and a strong commitment to customer service, enables us to be a single source of supply for our customers' needs. Our infrastructure also allows us to provide convenient ordering and rapid, accurate and complete order fulfillment.

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

The health care distribution reportable segment aggregates our global dental, 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 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, practice technology, network and hardware services, as well as continuing education services for practitioners.

Industry Overview

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

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

Our current and future results have been and could be impacted by the current economic environment and uncertainty, particularly impacting overall demand for our products and services.

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Industry Consolidation

The health care products distribution industry, as it relates to office-based health care practitioners, is fragmented and diverse. This industry, which encompasses the dental, animal health and medical markets, was estimated to produce revenues of approximately \$45 billion in 2017 in the global markets. The industry ranges from sole practitioners working out of relatively small offices to group practices or service organizations ranging in size from a few practitioners to a large number of practitioners who have combined or otherwise associated their practices.

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

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

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

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

As industry consolidation continues, we believe that we are positioned to capitalize on this trend, as we believe we have the ability to support increased sales through our existing infrastructure, although there can be no assurances that we will be able to successfully accomplish this. We also have invested in expanding our sales/marketing

infrastructure to include a focus on building relationships with decision makers who do not reside in the office-based practitioner setting.

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

Aging Population and Other Market Influences

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

According to the U.S. Census Bureau's International Data Base, in 2017 there were more than six million Americans aged 85 years or older, the segment of the population most in need of long-term care and elder-care

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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 over 50% during the same time period.

As a result of these market dynamics, annual expenditures for health care services continue to increase in the United States. We believe that demand for our products and services will grow, while continuing to be impacted by current and future operating, economic and industry conditions. The Centers for Medicare and Medicaid Services, or CMS, published “National Health Expenditure Projections 2016-2025” indicating that total national health care spending reached approximately \$3.4 trillion in 2016, or 18.1% 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 \$5.5 trillion in 2025, approximately 19.9% of the nation’s gross domestic product.

Government

Certain of our businesses involve the distribution of pharmaceuticals and medical devices, and in this regard we are subject to extensive local, state, federal and foreign governmental laws and regulations applicable to the distribution and sale of pharmaceuticals and medical devices. Additionally, government and private insurance programs fund a large portion of the total cost of medical care, and there has been an emphasis on efforts to control medical costs, including laws and regulations lowering reimbursement rates for pharmaceuticals, medical devices, and/or medical treatments or services. Also, many of these laws and regulations are subject to change and may impact our financial performance. In addition, our businesses are generally subject to numerous other laws and regulations that could impact our financial performance, including securities, antitrust, anti-bribery and anti-kickback, customer interaction transparency, data privacy, data security and other laws and regulations. Failure to comply with law or regulations could have a material adverse effect on our business.

Health Care Reform

The United States Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act, each enacted in March 2010 (the “Health Care Reform Law”) increased federal oversight of private health insurance plans and included a number of provisions designed to reduce Medicare expenditures and the cost of health care generally, to reduce fraud and abuse, and to provide access to increased health coverage.

The Health Care Reform Law requirements include a 2.3% excise tax on domestic sales of many medical devices by manufacturers and importers that began in 2013 and a fee on branded prescription drugs and biologics that was implemented in 2011, both of which may affect sales. However, with respect to the medical device excise tax, a

Industry Consolidation

two-year moratorium was imposed under the Consolidated Appropriations Act, 2016, suspending the imposition of the tax on device sales during the period beginning January 1, 2016 and ending on December 31, 2017, and on January 22, 2018 an additional two-year moratorium was imposed under Public Law No. 115-120, suspending the imposition of the tax on device sales during the period beginning January 1, 2018 and ending on December 31, 2019. The Health Care Reform Law has also materially expanded the number of individuals in the United States with health insurance. The Health Care Reform Law has faced ongoing legal challenges, including litigation seeking to invalidate some of or all of the law or the manner in which it has been implemented. In addition, the President is seeking to repeal and replace the Health Care Reform Law. Repeal and replace legislation has been passed in the House of Representatives, but did not obtain the necessary votes in the Senate. Subsequently, the President has affirmed his intention to repeal and replace the Health Care Reform Law and has taken a number of administrative actions to materially weaken the Health Care Reform Law. On December 22, 2017, the President signed the Tax Cuts and Jobs Act into law, which contains a broad range of tax reform provisions that impact the individual and corporate tax rates, international tax provisions, income tax add-back provisions and deductions. The tax reform law also repealed the individual mandate of the Health Care Reform Law. The uncertain status of the Health Care Reform Law affects our ability to plan.

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A Health Care Reform Law provision, generally referred to as the Physician Payment Sunshine Act or Open Payments Program, has imposed new reporting and disclosure requirements for drug and device manufacturers and distributors with regard to payments or other transfers of value made to certain covered recipients (including physicians, dentists and teaching hospitals), and for such manufacturers and distributors and for group purchasing organizations, with regard to certain ownership interests held by physicians in the reporting entity. CMS publishes information from these reports on a publicly available website, including amounts transferred and physician, dentist and teaching hospital identities.

Under the Physician Payment Sunshine Act, we are required to collect and report detailed information regarding certain financial relationships we have with physicians, dentists and teaching hospitals. We believe that we are substantially compliant with applicable Physician Payment Sunshine Act requirements. The Physician Payment Sunshine Act pre-empts similar state reporting laws, although we or our subsidiaries may be required to report under certain state transparency laws that address circumstances not covered by the Physician Payment Sunshine Act, and some of these state laws, as well as the federal law, can be ambiguous. We are also subject to foreign regulations requiring transparency of certain interactions between suppliers and their customers. While we believe we have substantially compliant programs and controls in place to comply with these requirements, our compliance with these rules imposes additional costs on us.

Another notable Medicare health care reform initiative, the Medicare Access and CHIP Reauthorization Act of 2015 (“MACRA”), enacted on April 16, 2015, establishes a new payment framework, called the Quality Payment Program, which modifies certain Medicare payments to “eligible clinicians,” including physicians, dentists and other practitioners. Under MACRA, eligible clinicians will be required to participate in Medicare through the Merit-Based Incentive Payment System (“MIPS”) or Advanced Alternative Payment Models (“APMs”). MIPS generally will consolidate three current programs; the physician quality reporting system, the value-based payment modifier and the Medicare electronic health record (“EHR”) program, into a single program in which Medicare reimbursement to eligible clinicians will include both positive and negative payment adjustments that take into account quality, resource use, clinical practice improvement and meaningful use of certified EHR technology. Advanced APMs generally involve higher levels of financial and technology risk. A final rule was published in the Federal Register on November 4, 2016 and allows eligible Medicare clinicians to pick their pace of participation for the first performance period that began January 1, 2017. The data collected in the first performance year will determine payment adjustments beginning January 1, 2019. A final rule updating certain Quality Payment Program regulations was published on November 16, 2017, which became effective as of January 1, 2018. MACRA represents a fundamental change in physician reimbursement that is expected to provide substantial financial incentives for physicians to participate in risk contracts, and to increase physician information technology and reporting obligations. The implications of the implementation of MACRA are uncertain and will depend on future regulatory activity and physician activity in the marketplace. MACRA may encourage physicians to move from smaller practices to larger physician groups or hospital employment, leading to a consolidation of a portion of our customer base. Although we believe that we are positioned to capitalize on this consolidation trend, there can be no assurances that we will be able to successfully accomplish this.

Health Care Fraud

Certain of our businesses are subject to federal and state (and similar foreign) health care fraud and abuse, referral and reimbursement laws and regulations with respect to their operations. Some of these laws, referred to as “false claims laws,” prohibit the submission or causing the submission of false or fraudulent claims for reimbursement to federal, state and other health care payers and programs. Other laws, referred to as “anti-kickback laws,” prohibit soliciting, offering, receiving or paying remuneration in order to induce the referral of a patient or ordering, purchasing, leasing or arranging for, or recommending ordering, purchasing or leasing of, items or services that are paid for by federal, state and other health care payers and programs.

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The fraud and abuse laws and regulations have been subject to varying interpretations, as well as heightened enforcement activity over the past few years, and significant enforcement activity has been the result of “relators,” who serve as whistleblowers by filing complaints in the name of the United States (and if applicable, particular states) under federal and state false claims laws. Under the federal False Claims Act, relators can be entitled to receive up to 30% of total recoveries. Also, violations of the federal False Claims Act can result in treble damages, and, in accordance with a final rule published by the Department of Justice on February 3, 2017, which substantially increased the maximum and minimum civil penalties for False Claims Act violations, the amounts for civil penalties assessed after February 3, 2017, whose associated violations occurred after November 2, 2015, were increased from a minimum per-claim penalty of \$10,781 to \$10,957, and from a maximum per-claim penalty of \$21,563 to \$21,916. Most states have adopted similar state false claims laws, and these state laws have their own penalties which may be in addition to federal False Claims Act penalties. The Health Care Reform Law significantly strengthened the federal False Claims Act and the federal Anti-Kickback Law provisions, which could lead to the possibility of increased whistleblower or relator suits, and among other things made clear that a federal Anti-Kickback Law violation can be a basis for federal False Claims Act liability.

The United States government (among others) has expressed concerns about financial relationships between suppliers on the one hand and physicians and dentists on the other. As a result, we regularly review and revise our marketing practices as necessary to facilitate compliance.

We also are subject to certain United States and foreign laws and regulations concerning the conduct of our foreign operations, including the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, German anti-corruption laws and other anti-bribery laws and laws pertaining to the accuracy of our internal books and records, which have been the focus of increasing enforcement activity globally in recent years.

Failure to comply with fraud and abuse laws and regulations could result in significant civil and criminal penalties and costs, including the loss of licenses and the ability to participate in federal and state health care programs, and could have a material adverse effect on our business. Also, these measures may be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that could require us to make changes in our operations or incur substantial defense and settlement expenses. Even unsuccessful challenges by regulatory authorities or private relators could result in reputational harm and the incurring of substantial costs. In addition, many of these laws are vague or indefinite and have not been interpreted by the courts, and have been subject to frequent modification and varied interpretation by prosecutorial and regulatory authorities, increasing the risk of noncompliance.

While we believe that we are substantially compliant with applicable fraud and abuse laws and regulations, and have adequate compliance programs and controls in place to ensure substantial compliance, we cannot predict whether changes in applicable law, or interpretation of laws, or changes in our services or marketing practices in response to changes in applicable law or interpretation of laws, could have a material adverse effect on our business.

Operating, Security and Licensure Standards

Certain of our businesses involve the distribution of pharmaceuticals and medical devices, and in this regard we are subject to various local, state, federal and foreign governmental laws and regulations applicable to the distribution of pharmaceuticals and medical devices. Among the United States federal laws applicable to us are the Controlled Substances Act, the Federal Food, Drug, and Cosmetic Act, as amended (“FDC Act”), and Section 361 of the Public Health Service Act. We are also subject to comparable foreign regulations.

The FDC Act and similar foreign laws generally regulate the introduction, manufacture, advertising, labeling, packaging, storage, handling, reporting, marketing and distribution of, and record keeping for, pharmaceuticals and medical devices shipped in interstate commerce, and states may similarly regulate such activities within the state. Section 361 of the Public Health Service Act, which provides authority to prevent the spread of communicable diseases, serves as the legal basis for the United States Food and Drug Administration’s (“FDA”) regulation of human cells, tissues and cellular and tissue-based products, also known as “HCT/P products.”

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The Federal Drug Quality and Security Act of 2013 brought about significant changes with respect to pharmaceutical supply chain requirements and pre-empts state law. Title II of this measure, known as the Drug Supply Chain Security Act (“DSCSA”), is being phased in over a period of ten years, and is intended to build a national electronic, interoperable system to identify and trace certain prescription drugs as they are distributed in the United States. The law’s track and trace requirements applicable to manufacturers, wholesalers, repackagers and dispensers (e.g., pharmacies) of prescription drugs took effect in January 2015, and will continue to be implemented. The DSCSA product tracing requirements replace the former FDA drug pedigree requirements and pre-empt state requirements that are inconsistent with, more stringent than, or in addition to, the DSCSA requirements.

The DSCSA also establishes certain requirements for the licensing and operation of prescription drug wholesalers and third party logistics providers (“3PLs”), and includes the eventual creation of national wholesaler and 3PL licenses in cases where states do not license such entities. The DSCSA requires that wholesalers and 3PLs distribute drugs in accordance with certain standards regarding the recordkeeping, storage and handling of prescription drugs. According to FDA guidance, states are pre-empted from imposing any licensing requirements that are inconsistent with, less stringent than, directly related to, or covered by the standards established by federal law in this area. Current state licensing requirements will likely remain in effect until the FDA issues new regulations as directed by the DSCSA.

We believe that we are substantially compliant with applicable DSCSA requirements.

The Food and Drug Administration Amendments Act of 2007 and the Food and Drug Administration Safety and Innovation Act of 2012 amended the FDCA to require the FDA to promulgate regulations to implement a unique device identification (“UDI”) system. The FDA is phasing in the implementation of the UDI regulations over seven years, generally beginning with the highest-risk devices (i.e., Class III medical devices) and ending with the lowest-risk devices. The UDI regulations require “labelers” to include unique device identifiers (“UDIs”), with a content and format prescribed by the FDA and issued under a system operated by an FDA-accredited issuing agency, on the labels and packages of medical devices, and to directly mark certain devices with UDIs. The UDI regulations also require labelers to submit certain information concerning UDI-labeled devices to the FDA, much of which information is publicly available on an FDA database, the Global Unique Device Identification Database. The UDI regulations provide for certain exceptions, alternatives and time extensions. For example, the UDI regulations include a general exception for Class I devices exempt from the Quality System Regulation (other than record-keeping requirements and complaint files). Regulated labelers include entities such as device manufacturers, repackagers, reproducers and relabelers that cause a device’s label to be applied or modified, with the intent that the device will be commercially distributed without any subsequent replacement or modification of the label, and include certain of our businesses.

We believe that we are substantially compliant with applicable UDI requirements.

Under the Controlled Substances Act, as a distributor of controlled substances, we are required to obtain and renew annually registrations for our facilities from the United States Drug Enforcement Administration (“DEA”) permitting us to handle controlled substances. We are also subject to other statutory and regulatory requirements relating to the storage, sale, marketing, handling and distribution of such drugs, in accordance with the Controlled Substances Act and its implementing regulations, and these requirements have been subject to heightened enforcement activity in recent times. We are subject to inspection by the DEA.

Certain of our businesses are also required to register for permits and/or licenses with, and comply with operating and security standards of, the DEA, the FDA, the United States Department of Health and Human Services, and various state boards of pharmacy, state health departments and/or comparable state agencies as well as comparable foreign agencies, and certain accrediting bodies depending on the type of operations and location of product distribution, manufacturing or sale. These businesses include those that distribute, manufacture and/or repack prescription pharmaceuticals and/or medical devices and/or HCT/P products, or own pharmacy operations, or install, maintain or repair equipment. In addition, Section 301 of the National Organ Transplant Act, and a number of comparable state laws, impose civil and/or criminal penalties for the transfer of certain human tissue (for example, human bone products) for valuable consideration, while generally permitting payments for the reasonable costs incurred in procuring, processing, storing and distributing that tissue. We are also subject to

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foreign government regulation of such products. The DEA, the FDA and state regulatory authorities have broad inspection and enforcement powers, including the ability to suspend or limit the distribution of products by our distribution centers, seize or order the recall of products and impose significant criminal, civil and administrative sanctions for violations of these laws and regulations. Foreign regulations subject us to similar foreign enforcement powers. Furthermore, compliance with legal requirements has required and may in the future require us to institute voluntary recalls of products we sell, which could result in financial losses and potential reputational harm. Our customers are also subject to significant federal, state, local and foreign governmental regulation.

Certain of our businesses are subject to various additional federal, state, local and foreign laws and regulations, including with respect to the sale, transportation, storage, handling and disposal of hazardous or potentially hazardous substances, and safe working conditions.

Certain of our businesses also maintain contracts with governmental agencies and are subject to certain regulatory requirements specific to government contractors.

Antitrust

The U.S. federal government, most U.S. states and many foreign countries have antitrust laws that prohibit certain types of conduct deemed to be anti-competitive. Violations of antitrust laws can result in various sanctions, including criminal and civil penalties. Private plaintiffs also could bring civil lawsuits against us in the United States for alleged antitrust law violations, including claims for treble damages.

Regulated Software; Electronic Health Records

The FDA has become increasingly active in addressing the regulation of computer software intended for use in health care settings, and has developed and continues to develop policies on regulating clinical decision support tools and other types of software as medical devices. Certain of our businesses involve the development and sale of software and related products to support physician and dental practice management, and it is possible that the FDA or foreign government authorities could determine that one or more of our products is a medical device, which could subject us or one or more of our businesses to substantial additional requirements with respect to these products.

In addition, the European Parliament and the Council of the European Union have adopted a new pan-European General Data Protection Regulation (“GDPR”), effective from May 25, 2018, which increases privacy rights for individuals in Europe, extends the scope of responsibilities for data controllers and data processors and imposes increased requirements and potential penalties on companies offering goods or services to individuals who are located in Europe (“Data Subjects”) or monitoring the behavior of such individuals (including by companies based outside of Europe). Noncompliance can result in penalties of up to the greater of EUR 20 million, or 4% of global company revenues. Individual member states may impose additional requirements and penalties as they relate to certain things such as employee personal data. Among other things, the GDPR requires with respect to data concerning Data Subjects, company accountability, consents from Data Subjects or other acceptable legal basis needed to process the personal data, prompt breach notifications within 72 hours, fairness and transparency in how the personal data is stored, used or otherwise processed, and data integrity and security, and provides rights to Data Subjects relating to modification, erasure and transporting of the personal data. While we expect to have substantially compliant programs and controls in place to comply with the GDPR requirements, our compliance with the new regulation is likely to impose additional costs on us, and we cannot predict whether the interpretations of the requirements, or changes in our practices in response to new requirements or interpretations of the requirements, could have a material adverse effect on our business.

We also sell products and services that health care providers, such as physicians and dentists, use to store and manage patient medical or dental records. These customers are subject to laws, regulations and industry standards, such as HIPAA and the Payment Card Industry Data Security Standards, which require that they protect the privacy and security of those records, and our products may be used as part of these customers’ comprehensive data security programs, including in connection with their efforts to comply with applicable privacy and security laws. Perceived or actual security vulnerabilities in our products or services, or the perceived or actual failure by us or our customers who use our products to comply with applicable legal or contractual requirements, may not only

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cause us significant reputational harm, but may also lead to claims against us by our customers and/or governmental agencies and involve substantial fines, penalties and other liabilities and expenses and costs for remediation.

Federal initiatives provide a program of incentive payments available to certain health care providers involving the adoption and use of certain electronic health care records systems and processes. The initiatives include providing, among others, physicians and dentists, with financial incentives if they meaningfully use certified EHR technology in accordance with applicable and evolving requirements. In addition, Medicare-eligible providers that fail to timely adopt certified EHR systems and meet “meaningful use” requirements for those systems in accordance with regulatory requirements are to be subject to cumulative Medicare reimbursement reductions, which reductions for applicable health professionals (including physicians and dentists) began on January 1, 2015. Qualification for the incentive payments requires the use of EHRs that have certain capabilities for meaningful use pursuant to evolving standards adopted by CMS and by the Office of the National Coordinator for Health Information Technology (“ONC”) of the Department of Health and Human Services (“HHS”).

The use of certified EHR technology will continue as a feature of MACRA’s MIPS program, and in connection with this, Medicare EHR program payment adjustments to eligible professionals will sunset at the end of 2018 and MIPS payment adjustments will begin on January 1, 2019. The first performance period for MIPS began January 1, 2017, and will afford eligible clinicians different reporting options linked to the amount of data reported and the duration of the reporting period, with positive payment adjustments generally linked to more robust reporting.

On October 6, 2015, CMS and ONC released comprehensive final rules with respect to the EHR program that, among other things, established the more challenging “Stage 3” criteria, made certain adjustments to Stage 1 and Stage 2 standards (e.g., reducing the 2015 reporting period from a full year to 90 days), and finalized 2015 edition health information technology (HIT) certification criteria (which is now added to the existing 2014 edition HIT certification criteria, but not required until 2018). Notably, under the new rules, compliance with Stage 3 standards is optional for providers in 2017, and would generally be required for all eligible providers (regardless of prior participation in the EHR incentive program) for 2018 reporting periods and subsequently. Developers and others involved in the manufacture of EHR program technology will have this interim period to develop and certify products, and work with customers to implement products for the 2018 EHR program period. In connection with the release of the October 6 rules, HHS has also stated that it will continue to modify applicable EHR program standards. On November 14, 2016, CMS published a final rule that will impact Medicare and Medicaid EHR incentive programs through revisions to the objectives and measures for eligible hospitals, critical access hospitals and dual-eligible hospitals.

Certain of our businesses involve the manufacture and sale of certified EHR systems and other products linked to incentive programs. CMS and ONC establish criteria for certified EHR systems, and these criteria have been subject to change. In order to maintain certification of our EHR products, we must satisfy these changing governmental criteria. Certain of our businesses involve the manufacture and sale of certified EHR systems and other products linked to incentive programs. CMS and ONC establish criteria for certified EHR systems, and these criteria have been

subject to change. In order to maintain certification of our EHR products, we must satisfy these changing governmental criteria. If any of our EHR systems do not meet these standards, yet have been relied upon by health care providers to receive federal incentive payments, as noted above, we are exposed to risk under federal health care fraud and abuse laws, such as the False Claims Act. For example, on May 31, 2017, the U.S. Department of Justice announced a \$155 million settlement and 5-year corporate integrity agreement involving a vendor of certified EHR systems, based on allegations that the vendor, by misrepresenting capabilities to the certifying body, caused its health care provider customers to submit false Medicare and Medicaid claims for meaningful use payments in violation of the False Claims Act. While we believe we are substantially in compliance with such certifications and with applicable fraud and abuse laws and regulations, and we have adequate compliance programs and controls in place to ensure substantial compliance, we cannot predict whether changes in applicable law, or interpretation of laws, or changes in our practices in response to changes in applicable law or interpretation of laws, could have a material adverse effect on our business. Moreover, in order to satisfy our customers, our products may need to incorporate increasingly complex reporting functionality. Although we believe we are positioned to accomplish this, the effort may involve increased costs, and our failure to implement product modifications, or otherwise satisfy applicable standards, could have a material adverse effect on our

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business.

Other health information standards, such as regulations under HIPAA, establish standards regarding electronic health data transmissions and transaction code set rules for specific electronic transactions, such as transactions involving claims submissions to third party payers. Certain of our businesses provide electronic practice management products that must meet these requirements. Failure to abide by electronic health data transmission standards could expose us to breach of contract claims, substantial fines, penalties, and other liabilities and expenses, costs for remediation and harm to our reputation.

Additionally, as electronic medical devices are increasingly connected to each other and to other technology, the ability of these connected systems safely and effectively to exchange and use exchanged information becomes increasingly important. On September 6, 2017, the FDA issued guidance to assist industry in identifying specific considerations related to the ability of electronic medical devices to safely and effectively exchange and use exchanged information. As a medical device manufacturer, we must manage risks including those associated with an electronic interface that is incorporated into a medical device.

There may be additional legislative initiatives in the future impacting health care.

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E-Commerce

Electronic commerce solutions have become an integral part of traditional health care supply and distribution relationships. Our distribution business is characterized by rapid technological developments and intense competition. The continuing advancement of online commerce requires us to cost-effectively adapt to changing technologies, to enhance existing services and to develop and introduce a variety of new services to address the changing demands of consumers and our customers on a timely basis, particularly in response to competitive offerings.

Through our proprietary, technologically based suite of products, we offer customers a variety of competitive alternatives. We believe that our tradition of reliable service, our name recognition and large customer base built on solid customer relationships, position us well to participate in this significant aspect of the distribution business. We continue to explore ways and means to improve and expand our Internet presence and capabilities, including our online commerce offerings and our use of various social media outlets.

Results of Operations

The following tables summarize the significant components of our operating results and cash flows for each of the three years ended December 30, 2017, December 31, 2016 and December 26, 2015 (in thousands):

| | Years Ended December 30, 2017 |
|--|--|
| Operating results: | |
| Net sales | \$12,46 |
| Cost of sales | 9,062 |
| Gross profit | 3,399 |
| Operating expenses: | |
| Selling, general and administrative | 2,539 |
| Restructuring costs | - |
| Operating income | \$859,3 |

| | |
|---|--|
| Other expense, net | \$(36,520,000) |
| | |
| Net income | 459,200,000 |
| | |
| Net income attributable to Henry Schein, Inc. | 406,200,000 |
| | |
| | Years Ended December 31, 2017 |
| Cash flows: | |
| Net cash provided by operating activities | \$545,500,000 |
| | |
| Net cash used in investing activities | (342,200,000) |
| | |
| Net cash used in financing activities | (112,500,000) |
| | |

Plans of Restructuring

On November 6, 2014, we announced a corporate initiative to rationalize our operations and provide expense efficiencies, which was expected to be completed by the end of fiscal 2015. This initiative originally planned for the elimination of approximately 2% to 3% of our workforce and the closing of certain facilities. We subsequently announced our plan to extend these restructuring activities through the end of 2016 to further implement cost-savings initiatives, which ultimately resulted in the elimination of approximately 900 positions, representing slightly more than 4% of our workforce. The total costs associated with the actions for this restructuring included \$34.9 million pre-tax, which was recorded in fiscal 2015, and \$45.9 million pre-tax, which was recorded in fiscal 2016. The costs associated with this restructuring are included in a separate line item, "Restructuring costs" within our consolidated statements of income.

As of December 31, 2016 our restructuring activities are complete and we did not incur any additional restructuring charges in fiscal 2017.

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2017 Compared to 2016

Net Sales

Net sales for 2017 and 2016 were as follows (in thousands):

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 and generic pharmaceuticals, vaccines, surgical products, diagnostic tests, infection-control products and vitamins.

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

The fiscal year ended December 30, 2017 consisted of 52 weeks as compared to the fiscal year ended December 31, 2016, which consisted of 53 weeks.

The \$889.9 million, or 7.7%, increase in net sales for the year ended December 30, 2017 includes an increase of 7.2% local currency growth (5.1% increase in internally generated revenue, 1.5% decrease due to the impact from the extra week in 2016 and 3.6% growth from acquisitions) as well as an increase of 0.5% related to foreign currency exchange.

The \$493.5 million, or 8.9%, increase in dental net sales for the year ended December 30, 2017 includes an increase of 7.9% in local currencies (3.0% increase in internally generated revenue, 1.4% decrease due to the impact from the extra week in 2016 and 6.3% growth from acquisitions) as well as an increase of 1.0% related to foreign currency

exchange. The 7.9% increase in local currency sales was due to increases in dental equipment sales and service revenues of 4.5% (6.5% increase in internally generated revenue, 2.4% decrease due to the impact from the extra week in 2016 and 0.4% growth from acquisitions) and dental consumable merchandise sales growth of 9.0% (1.9% increase in internally generated revenue, 1.1% decrease due to the impact from the extra week in 2016 and 8.2% growth from acquisitions).

The \$223.6 million, or 6.9%, increase in animal health net sales for the year ended December 30, 2017 includes an increase of 6.9% local currency growth (6.3% increase in internally generated revenue, 1.3% decrease due to the impact from the extra week in 2016 and 1.9% growth from acquisitions). The growth in internally generated animal health revenue is affected by the revenue for certain products being recognized on a gross basis in 2017 that had been recognized on an agency basis in the prior year. When excluding the effects of this change, internally generated revenue grew by 6.0%.

The \$160.3 million, or 6.9%, increase in medical net sales for the year ended December 30, 2017 includes an increase of 6.8% local currency growth (8.4% increase in internally generated revenue and 1.6% decrease due to the impact from the extra week in 2016) as well as an increase of 0.1% related to foreign currency exchange.

The \$12.5 million, or 2.9%, increase in technology and value-added services net sales for the year ended December 30, 2017 includes an increase of 3.2% local currency growth (3.5% increase in internally generated revenue, 0.8% decrease due to the impact from the extra week in 2016 and 0.5% growth from acquisitions) partially offset by a decrease of 0.3% related to foreign currency exchange.

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Gross Profit

Gross profit and gross margins for 2017 and 2016 by segment and in total were as follows (in thousands):

| | |
|-------------------------------------|-----|
| Health care distribution | 20 |
| ..... | \$3 |
| Technology and value-added services | |
| ..... | 2 |
| Total | \$3 |

Gross profit increased \$172.6 million, or 5.4%, for the year ended December 30, 2017 compared to the prior year period. As a result of different practices of categorizing costs associated with distribution networks throughout our industry, our gross margins may not necessarily be comparable to other distribution companies. Additionally, we realize substantially higher gross margin percentages in our technology segment than in our health care distribution segment. These higher gross margins result from being both the developer and seller of software products and services, as well as certain financial services. The software industry typically realizes higher gross margins to recover investments in research and development.

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

Health care distribution gross profit increased \$159.3 million, or 5.4%, for the year ended December 30, 2017 compared to the prior year period. Health care distribution gross profit margin decreased to 25.9% for the year ended December 30, 2017 from 26.5% for the comparable prior year period. The overall increase in our health care distribution gross profit is attributable to a \$104.0 million gross profit increase from growth in internally generated revenue and \$125.3 million is attributable to acquisitions. These increases were partially offset by a \$70.0 million decline in gross profit due to the decrease in the gross margin rates.

Technology and value-added services gross profit increased \$13.3 million, or 4.9%, for the year ended December 30, 2017 compared to the prior year period. Technology and value-added services gross profit margin increased to 65.4% for the year ended December 30, 2017 from 64.2% for the comparable prior year period. Acquisitions accounted for \$2.0 million of our gross profit increase within our technology and value-added services segment for the year ended December 30, 2017 compared to the prior year period. The remaining increase of \$11.3 million in our technology and value-added services segment gross profit was primarily attributable to growth in internally generated revenue and the increase in gross margin rates.

Selling, General and Administrative

Selling, general and administrative expenses by segment and in total for 2017 and 2016 were as follows (in thousands):

| | |
|-------------------------------------|-----|
| Health care distribution | 20 |
| ..... | \$2 |
| Technology and value-added services | 1 |
| ..... | \$2 |
| Total | \$2 |

Selling, general and administrative expenses increased \$130.7 million, or 5.4%, for the year ended December 30, 2017 from the comparable prior year period. The \$127.0 million increase in selling, general and administrative expenses within our health care distribution segment for the year ended December 30, 2017 as compared to the prior year period was attributable to \$107.3 million of additional costs from acquired companies, and \$19.7 million of additional operating costs. The \$3.7 million increase in selling, general and administrative expenses within our

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technology and value-added services segment for the year ended December 30, 2017 as compared to the prior year period was attributable to \$2.1 million of additional costs from acquired companies and \$1.6 million of additional operating costs. As a percentage of net sales, selling, general and administrative expenses decreased to 20.4% from 20.8% for the comparable prior year period.

As a component of total selling, general and administrative expenses, selling expenses increased \$82.2 million, or 5.6%, for the year ended December 30, 2017 from the comparable prior year period. As a percentage of net sales, selling expenses decreased to 12.5% from 12.8% for the comparable prior year period.

As a component of total selling, general and administrative expenses, general and administrative expenses increased \$48.5 million, or 5.2%, for the year ended December 30, 2017 from the comparable prior year period. As a percentage of net sales, general and administrative expenses decreased to 7.8% from 8.0% for the comparable prior year period.

Other Expense, Net

Other expense, net for the years ended 2017 and 2016 was as follows (in thousands):

| | 2017 |
|--------------------------|---------|
| Interest income | \$17,5 |
| Interest expense | (53,0 |
| Other, net | (420 |
| Other expense, net | \$(36,5 |

Other expense, net increased \$20.8 million to \$36.5 million for the year ended December 30, 2017 from the comparable prior year period. Interest income increased \$4.3 million primarily due to increased investment and late fee income. Interest expense increased \$21.8 million primarily due to increased borrowings and higher interest rates under our bank credit lines and interest expense related to a financing arrangement entered into during the first quarter of 2017 in Brazil. Other, net decreased by \$3.3 million due primarily to investment proceeds received in the first quarter of 2016.

Income Taxes

For the year ended December 30, 2017, our effective tax rate was 44.1% compared to 28.8% for the prior year period. Our effective tax rate in 2017 was primarily higher due to the Tax Cuts and Jobs Act (“the Tax Act”). Our effective tax rate was favorably impacted in 2017 by the adoption of Accounting Standards Update (“ASU”) 2016-09, Accounting for Stock Compensation, as well as savings from implementation of tax planning initiatives and higher income from lower tax jurisdictions. During the second quarter of 2016, the effective tax rate was affected by a federal tax audit settlement, which reduced our income tax expense by approximately \$4.5 million. For 2018, we expect our effective tax rate to be in the range of 24%.

On December 22, 2017, the U.S. government passed the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act is comprehensive tax legislation that implements complex changes to the U.S. tax code including, but not limited to, the reduction of the corporate tax rate from 35% to 21%, modification of accelerated depreciation, the repeal of the domestic manufacturing deduction and changes to the limitations of the deductibility of interest. Additionally, the Tax Act moves from a global tax regime to a modified territorial regime, which requires U.S. companies to pay a mandatory one-time transition tax on historical offshore earnings that have not been repatriated to the U.S. The transition tax is payable over eight years.

Due to the complexities of the Tax Act, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”) that allows the company to record a provisional amount for any income tax effects of the Tax Act in accordance with ASC 740, to the extent that a reasonable estimate can be made. SAB 118 allows for a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts.

We have recorded provisional amounts for any items that could be reasonably estimated at this time. This includes the one-time transition tax that we have estimated to be \$140.0 million. Within our consolidated balance sheets, \$27.4 million is included in “Accrued taxes” and \$112.6 million is included in “Other liabilities”. The U.S.

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deferred tax assets and liabilities were revalued due to the lower enacted federal income tax rate, of 21%, that was effective January 1, 2018. The Company accrued a net deferred tax expense of \$3.0 million attributable to the revaluation. In the aggregate, for the quarter ended December 30, 2017, these Tax Act modifications resulted in a one-time tax expense of approximately \$143.0 million. Absent the effects of the transition tax and the revaluation of deferred tax assets and liabilities, our effective tax rate for the year ended December 30, 2017 would have been 26.7% as compared to our actual effective tax rate of 44.1%.

The Tax Act also includes provisions to tax global intangible low-taxed income (“GILTI”) and a base erosion and anti-abuse tax (“BEAT”) that imposes tax on certain foreign related-party payments. The Company is subject to the GILTI and BEAT provisions which are effective January 1, 2018. The Company is in the process of assessing the effects of these provisions for 2018.

The ultimate impacts of the Tax Act may differ from the estimate above, possibly materially, due to additional guidance from the U.S. Department of Treasury, updates or changes in our assumptions, revision of accounting standards for income taxes or related interpretations and future information that may become available. We currently anticipate finalizing and recording any resulting adjustments by the quarter ended September 29, 2018. If the information necessary to finalize and record the related tax impacts are available prior to the quarter ended September 29, 2018, we will book these impacts accordingly.

Net Income

Net income decreased \$97.1 million, or 17.5%, for the year ended December 30, 2017, compared to the prior year period due to the factors noted above.

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2016 Compared to 2015

Net Sales

Net sales for 2016 and 2015 were as follows (in thousands):

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 providers, and financial services on a non-recourse basis, e-services, continuing education services for practitioners, consultants and other services.

The fiscal year ended December 31, 2016 consisted of 53 weeks as compared to the fiscal year ended December 26, 2015, which consisted of 52 weeks.

The \$941.9 million, or 8.9%, increase in net sales for the year ended December 31, 2016 includes an increase of 10.1% local currency growth (6.7% increase in internally generated revenue, 1.5% impact from extra week and 1.9% growth from acquisitions) partially offset by a decrease of 1.2% related to foreign currency exchange.

The \$278.9 million, or 5.3%, increase in dental net sales for the year ended December 31, 2016 includes an increase of 6.2% in local currencies (3.2% increase in internally generated revenue, 1.5% impact from extra week and 1.5% growth from acquisitions) offset by a decrease of 0.9% related to foreign currency exchange. The 6.2% increase in local currency sales was due to increases in dental equipment sales and service revenues of 9.0% (5.1% increase in internally generated revenue, 2.5% impact from extra week and 1.4% growth from acquisitions) and dental consumable merchandise sales growth of 5.3% (2.6% increase in internally generated revenue, 1.2% impact from extra week and 1.5% growth from acquisitions).

The \$331.5 million, or 11.3%, increase in animal health net sales for the year ended December 31, 2016 includes an increase of 13.9% local currency growth (9.6% increase in internally generated revenue, 1.5% impact from extra week and 2.8% growth from acquisitions) partially offset by a decrease of 2.6% related to foreign currency exchange. The growth in internally generated animal health revenue is affected by the revenue for certain products being recognized on a gross basis in 2016 that had been recognized on an agency basis in the prior year. When excluding the effects of this change, internally generated revenue grew by 7.1%.

The \$264.7 million, or 12.8%, increase in medical net sales for the year ended December 31, 2016 includes an increase of 12.8% local currency growth (11.1% increase in internally generated revenue and 1.7% impact from extra week). The growth in internally generated medical revenue is affected by certain sales being recognized on a gross basis in 2016 that had been recognized on an agency basis in the prior year. When excluding the effects of this change, internally generated revenue grew by 7.9%.

The \$66.8 million, or 18.6%, increase in technology and value-added services net sales for the year ended December 31, 2016 includes an increase of 20.0% local currency growth (7.9% increase in internally generated revenue, 0.9% impact from extra week and 11.2% growth from acquisitions) partially offset by a decrease of 1.4% related to foreign currency exchange.

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Gross Profit

Gross profit and gross margins for 2016 and 2015 by segment and in total were as follows (in thousands):

| | |
|-------------------------------------|-------|
| Health care distribution | 20 |
| ..... | \$2 |
| Technology and value-added services | 2 |
| ..... | \$3 |
| Total | ..... |

Gross profit increased \$219.5 million, or 7.3%, for the year ended December 31, 2016 compared to the prior year period. As a result of different practices of categorizing costs associated with distribution networks throughout our industry, our gross margins may not necessarily be comparable to other distribution companies. Additionally, we realize substantially higher gross margin percentages in our technology segment than in our health care distribution segment. These higher gross margins result from being both the developer and seller of software products and services, as well as certain financial services. The software industry typically realizes higher gross margins to recover investments in research and development.

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

Health care distribution gross profit increased \$184.5 million, or 6.7%, for the year ended December 31, 2016 compared to the prior year period. Health care distribution gross profit margin decreased to 26.5% for the year ended December 31, 2016 from 27.0% for the comparable prior year period. The overall increase in our health care distribution gross profit is attributable to a \$170.8 million gross profit increase from growth in internally generated revenue and \$60.9 million is attributable to acquisitions. These increases were partially offset by a \$47.2 million decline in gross profit due primarily to the effects of foreign exchange on revenues and the decrease in the gross margin rates.

Technology and value-added services gross profit increased \$35.0 million, or 14.7%, for the year ended December 31, 2016 compared to the prior year period. Technology and value-added services gross profit margin decreased to 64.2% for the year ended December 31, 2016 from 66.4% for the comparable prior year period. Acquisitions accounted for \$18.5 million of our gross profit increase within our technology and value-added services segment for the year ended December 31, 2016 compared to the prior year period. The remaining increase of \$16.5 million in our technology and value-added services segment gross profit was primarily attributable to growth in internally generated revenue.

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Selling, General and Administrative

Selling, general and administrative expenses by segment and in total for 2016 and 2015 were as follows (in thousands):

| | |
|-------------------------------------|-----|
| Health care distribution | 20 |
| ..... | \$2 |
| Technology and value-added services | |
| ..... | 1 |
| Total | \$2 |

Selling, general and administrative expenses increased \$171.0 million, or 7.6%, for the year ended December 31, 2016 from the comparable prior year period. The \$148.8 million increase in selling, general and administrative expenses within our health care distribution segment for the year ended December 31, 2016 as compared to the prior year period was attributable to \$57.6 million of additional costs from acquired companies, and \$91.2 million of additional operating costs. The \$22.2 million increase in selling, general and administrative expenses within our technology and value-added services segment for the year ended December 31, 2016 as compared to the prior year period was attributable to \$15.3 million of additional costs from acquired companies and \$6.9 million of additional operating costs. As a percentage of net sales, selling, general and administrative expenses decreased to 20.8% from 21.1% for the comparable prior year period.

As a component of total selling, general and administrative expenses, selling expenses increased \$104.3 million, or 7.6%, for the year ended December 31, 2016 from the comparable prior year period. As a percentage of net sales, selling expenses decreased to 12.8% from 13.0% for the comparable prior year period.

As a component of total selling, general and administrative expenses, general and administrative expenses increased \$66.7 million, or 7.7%, for the year ended December 31, 2016 from the comparable prior year period. As a percentage of net sales, general and administrative expenses decreased to 8.0% from 8.1% for the comparable prior year period.

Other Expense, Net

Other expense, net for the years ended 2016 and 2015 was as follows (in thousands):

| | 2016 |
|--------------------|---------|
| Interest income | |
| ..... | \$13,2 |
| Interest expense | |
| ..... | (31,8 |
| Other, net | 2,87 |
| Other expense, net | \$(15,7 |

Other expense, net increased \$2.5 million to \$15.7 million for the year ended December 31, 2016 from the comparable prior year period. Interest expense increased \$5.9 million primarily due to increased borrowings under our bank credit lines and our U.S. trade accounts receivable securitization. Higher interest rates also contributed to the increase in interest expense. Other, net increased by \$3.0 million due primarily to investment proceeds received in the first quarter of 2016.

Income Taxes

For the year ended December 31, 2016, our effective tax rate was 28.8% compared to 29.3% for the prior year period. During the second quarter of 2016, the effective tax rate was affected by a federal tax audit settlement, which reduced our income tax expense by approximately \$4.5 million.

During the third quarter of 2015, we received a favorable response to a tax petition, which allowed us to conclude that it was more likely than not that certain unrecognized tax benefits, which had been previously reserved, would be realized. As a result, our provision for income taxes in 2015 included a \$6.3 million income tax benefit.

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Absent the effects of this income tax benefit in the third quarter of 2015, our effective tax rate for the year ended December 26, 2015 would have been 30.2% as compared to our actual effective tax rate of 29.3%. The remaining difference between our effective tax rate and the federal statutory tax rate for both periods primarily relates to state and foreign income taxes and interest expense.

Net Income

Net income increased \$33.0 million, or 6.3%, for the year ended December 31, 2016, compared to the prior year period due to the factors noted above.

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Liquidity and Capital Resources

Our principal capital requirements include funding of acquisitions, purchases of additional noncontrolling interests, repayments of debt principal, the funding of working capital needs, purchases of fixed assets and repurchases of common stock. Working capital requirements generally result from increased sales, special inventory forward buy-in opportunities and payment terms for receivables and payables. Historically, sales have tended to be stronger during the third and fourth quarters and special inventory forward buy-in opportunities have been most prevalent just before the end of the year, and have caused our working capital requirements to be higher from the end of the third quarter to the end of the first quarter of the following year.

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

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

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

We believe that our cash and cash equivalents, our ability to access private debt markets and public equity markets, and our available funds under existing credit facilities provide us with sufficient liquidity to meet our currently foreseeable short-term and long-term capital needs. We have no off-balance sheet arrangements.

Net cash provided by operating activities was \$545.5 million for the year ended December 30, 2017, compared to \$642.6 million for the prior year. The net change of \$97.1 million was primarily attributable to working capital requirements.

Net cash used in investing activities was \$342.3 million for the year ended December 30, 2017, compared to \$316.4 million for the prior year. The net change of \$25.9 million was primarily due to increased payments for equity investments and business acquisitions, partially offset by proceeds of sales of equity investments.

Net cash used in financing activities was \$112.6 million for the year ended December 30, 2017, compared to \$327.3 million for the prior year. The net change of \$214.7 million was primarily due to increased net borrowings from debt, decreased repurchases of common stock and decreased acquisitions of noncontrolling interests in subsidiaries.

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

| | Dece 30, 2017 |
|--------------------------------------|---------------------|
| Cash and cash equivalents | |
| ..... | \$174 |
| Working capital | |
| ..... | 1,2 |
| Debt: | |
| Bank credit lines | |
| ..... | \$741 |
| Current maturities of long-term debt | |
| ..... | 16, |
| Long-term debt | |
| ..... | 907 |
| Total debt | \$1,6 |

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

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Accounts receivable days sales outstanding and inventory turns

Our accounts receivable days sales outstanding from operations decreased to 41.2 days as of December 30, 2017 from 41.3 days as of December 31, 2016. During the years ended December 30, 2017 and December 31, 2016, we wrote off approximately \$6.7 million and \$6.2 million, respectively, of fully reserved accounts receivable against our trade receivable reserve. Our inventory turns from operations were 5.3 as of December 30, 2017 and 5.5 as of December 31, 2016. Our working capital accounts may be impacted by current and future economic conditions.

Contractual obligations

The following table summarizes our contractual obligations related to fixed and variable rate long-term debt, including interest (assuming a weighted average interest rate of 2.7%), as well as inventory purchase commitments and operating and capital lease obligations as of December 30, 2017:

| | |
|---|--|
| Contractual obligations: | |
| Long-term debt, including interest | |
| Inventory purchase commitments | |
| Operating lease obligations | |
| Transition tax obligations | |
| Capital lease obligations, including interest | |
| Total | |

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 December 30, 2017 and December 31, 2016, the borrowings outstanding on this revolving credit facility and the prior credit facility were \$320.0 million and \$65.0 million, respectively. As of December 30, 2017 and December 31, 2016, there were \$11.3 million and \$13.0 million of letters of credit, respectively, provided to third parties under this credit facility and the prior credit facility.

As of December 30, 2017 and December 31, 2016, we had various other short-term bank credit lines available, of which \$421.7 million and \$372.5 million, respectively, were outstanding. At December 30, 2017 and December 31, 2016, borrowings under all of our credit lines had a weighted average interest rate of 2.27% and 1.61%, 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

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contain restrictions relating to subsidiary indebtedness, liens, affiliate transactions, disposal of assets and certain changes in ownership. These facilities contain make-whole provisions in the event that we pay off the facilities prior to the applicable due dates.

The components of our private placement facility borrowings as of December 30, 2017 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) | 35,714 | 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 |
| Less: Deferred debt issuance costs | (419) | | |
| | \$ 535,295 | | |

(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 and \$350.0 million as of December 30, 2017 and December 31, 2016, respectively. 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%. At December 31, 2016, the interest rate on borrowings under this facility was based on the asset-backed commercial paper rate of 101 basis points plus 75 basis points, for a combined rate of 1.76%.

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.

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Long-term debt

Long-term debt consisted of the following:

| | |
|---|--|
| Private placement facilities | |
| U.S. trade accounts receivable securitization | |
| Note payable to bank at a weighted average interest rate of 21.37% at December 31, 2016..... | |
| Various collateralized and uncollateralized loans payable with interest, in varying installments through 2022 at interest rates ranging from 2.56% to 12.90% at December 30, 2017 and ranging from 2.56% to 12.90% at December 31, 2016..... | |
| Capital lease obligations (see Note 17) | |
| Total | |
| Less current maturities | |
| Total long-term debt | |

Stock repurchases

From June 21, 2004 through December 30, 2017, we repurchased approximately \$2.7 billion, or 55,670,990 shares, under our common stock repurchase programs, with \$200.0 million available as of December 30, 2017 for future common stock share repurchases.

Redeemable noncontrolling interests

Some minority stockholders in certain of our subsidiaries have the right, at certain times, to require us to acquire their ownership interest in those entities at fair value. Accounting Standards Codification Topic 480-10 is applicable for noncontrolling interests where we are or may be required to purchase all or a portion of the outstanding interest in a consolidated subsidiary from the noncontrolling interest holder under the terms of a put option contained in contractual agreements. The components of the change in the Redeemable noncontrolling interests for the years ended December 30, 2017, December 31, 2016 and December 26, 2015 are presented in the following table:

| | |
|---|------|
| | De |
| | 30, |
| | 201 |
| Balance, beginning of period | \$60 |
| Decrease in redeemable noncontrolling interests due to redemptions | (4) |
| Increase in redeemable noncontrolling interests due to business acquisitions..... | 7 |
| Net income attributable to redeemable noncontrolling interests | 5 |
| Dividends declared | (2) |
| Effect of foreign currency translation gain (loss) attributable to redeemable noncontrolling interests | 7 |
| Change in fair value of redeemable securities | 1 |
| Balance, end of period | \$8 |

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.

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Additionally, some prior owners of such acquired subsidiaries are eligible to receive additional purchase price cash consideration if certain financial targets are met. Any adjustments to these accrual amounts are recorded in our consolidated statement of income.

Unrecognized tax benefits

As more fully disclosed in Note 12 of “Notes to Consolidated Financial Statements,” we cannot reasonably estimate the timing of future cash flows related to the unrecognized tax benefits, including accrued interest, of \$105.2 million as of December 30, 2017.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. We base our estimates on historical data, when available, experience, industry and market trends, and on various other assumptions that are believed to be reasonable under the circumstances, the combined results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. However, by their nature, estimates are subject to various assumptions and uncertainties. Reported results are therefore sensitive to any changes in our assumptions, judgments and estimates, including the possibility of obtaining materially different results if different assumptions were to be applied.

We believe that the following critical accounting policies, which have been discussed with the Audit Committee of the Board of Directors, affect the significant estimates and judgments used in the preparation of our financial statements:

Revenue Recognition

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 recorded 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 when products are shipped to customers. Such sales typically entail high-volume, low-dollar orders shipped using third-party common carriers. We believe that the shipment date is the most appropriate point in time indicating the completion of the earnings process because we have no post-shipment obligations, the product price is fixed and determinable, collection of the resulting receivable is reasonably assured and product returns are reasonably estimable.

Revenue derived from the sale of equipment is recognized when products are delivered to customers. Such sales typically entail scheduled deliveries of large equipment primarily by equipment service technicians. Some equipment sales require minimal installation, which is typically completed at the time of delivery.

Revenue derived from the sale of software products is recognized when products are shipped to customers. 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 recognized over the period in which the services are provided.

Revenue derived from multiple element arrangements, and the related deferral of such revenue (which is insignificant to our financial statements), is recognized as follows. When we sell software products together with related services (i.e., training and technical support) we allocate revenue to the delivered elements using the residual method, based upon vendor-specific objective evidence (“VSOE”) of the fair value of the undelivered elements, or defer it until such time as vendor-specific evidence of fair value is obtained. Multiple element 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 elements applying the following hierarchy: first VSOE, then third-party evidence (“TPE”) of selling price if VSOE is not available, and finally our estimate of the selling price if neither VSOE nor TPE is available. VSOE exists when we sell the deliverables separately and represents the actual price charged by us for each deliverable. Estimated selling

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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. Each element that has standalone value is accounted for as a separate unit of accounting. Revenue allocated to each unit of accounting is recognized when the service is provided or the product is delivered.

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.

Accounts Receivable and Reserves

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. The reserve for accounts receivable is comprised of allowance for doubtful accounts and sales returns. In addition to reviewing delinquent accounts receivable, we consider many factors in estimating our reserve, including historical data, experience, customer types, credit worthiness and economic trends. From time to time, we may adjust our assumptions for anticipated changes in any of these or other factors expected to affect collectability. Although we believe our judgments, estimates and/or assumptions related to accounts receivable and reserves are reasonable, making material changes to such judgments, estimates and/or assumptions could materially affect our financial results.

Inventories and Reserves

Inventories consist primarily of finished goods and are valued at the lower of cost or market. Cost is determined by the first-in, first-out method for merchandise or actual cost for large equipment and high tech equipment. In accordance with our policy for inventory valuation, we consider many factors including the condition and salability of the inventory, historical sales, forecasted sales and market and economic trends.

From time to time, we may adjust our assumptions for anticipated changes in any of these or other factors expected to affect the value of inventory. Although we believe our judgments, estimates and/or assumptions related to inventory and reserves are reasonable, making material changes to such judgments, estimates and/or assumptions could materially affect our financial results.

Goodwill and Other Indefinite-Lived Intangible Assets

Revenue Recognition

Goodwill and other indefinite-lived intangible assets (primarily trademarks) are not amortized, but are subject to impairment analysis at least once annually. Such impairment analyses for goodwill require a comparison of the fair value to the carrying value of reporting units. We regard our reporting units to be our operating segments: health care distribution (global dental, animal health and medical) and technology and value-added services. Goodwill was allocated to such reporting units, for the purposes of preparing our impairment analyses, based on a specific identification basis.

For the years ended December 30, 2017 and December 31, 2016, and December 26, 2015 we tested goodwill for impairment using a quantitative analysis consisting of a two-step approach. The first step of our quantitative analysis consists of a comparison of the carrying value of our reporting units, including goodwill, to the estimated fair value of our reporting units using a discounted cash flow methodology. If step one results in the carrying value of the reporting unit exceeding the fair value of such reporting unit, we would then proceed to step two which would require us to calculate the amount of impairment loss, if any, that we would record for such reporting unit. The calculation of the impairment loss in step two would be equivalent to the reporting unit's carrying value of goodwill less the implied fair value of such goodwill.

Our use of a discounted cash flow methodology includes estimates of future revenue based upon budget projections and growth rates which take into account estimated inflation rates. We also develop estimates for future levels of gross and operating profits and projected capital expenditures. Our methodology also includes the use of estimated discount rates based upon industry and competitor analysis as well as other factors. The estimates that we use in our discounted cash flow methodology involve many assumptions by management that are based upon future growth projections.

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Our impairment analysis for indefinite-lived intangibles consists of a comparison of the fair value to the carrying value of the assets. This comparison is made based on a review of historical, current and forecasted sales and gross profit levels, as well as a review of any factors that may indicate potential impairment. For indefinite-lived intangible assets, a present value technique, such as estimates of future cash flows, is utilized. We assessed the potential impairment of goodwill and other indefinite-lived intangible assets annually (at the beginning of our fourth quarter) and on an interim basis whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Some factors we consider important that could trigger an interim impairment review include:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of our use of acquired assets or the strategy for our overall business (e.g., decision to divest a business); or
- significant negative industry or economic trends.

If we determine through the impairment review process that goodwill or other indefinite-lived intangible assets are impaired, we record an impairment charge in our consolidated statements of income.

For the years ended December 30, 2017, December 31, 2016 and December 26, 2015, the results of our goodwill and intangible impairment analysis did not result in any impairments.

Supplier Rebates

Supplier rebates are included as a reduction of cost of sales and are recognized over the period they are earned. The factors we consider in estimating supplier rebate accruals include forecasted inventory purchases and sales in conjunction with supplier rebate contract terms which generally provide for increasing rebates based on either

increased purchase or sales volume. Although we believe our judgments, estimates and/or assumptions related to supplier rebates are reasonable, making material changes to such judgments, estimates and/or assumptions could materially affect our financial results.

Long-Lived Assets

Long-lived assets, other than goodwill and other indefinite-lived intangibles, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows to be derived from such assets.

Definite-lived intangible assets primarily consist of non-compete agreements, trademarks, trade names, customer lists, customer relationships and intellectual property. For long-lived assets used in operations, impairment losses are only recorded if the asset's carrying amount is not recoverable through its undiscounted, probability-weighted future cash flows. We measure the impairment loss based on the difference between the carrying amount and the estimated fair value. When an impairment exists, the related assets are written down to fair value. Although we believe our judgments, estimates and/or assumptions used in estimating cash flows and determining fair value are reasonable, making material changes to such judgments, estimates and/or assumptions could materially affect such impairment analyses and our financial results.

Stock-Based Compensation

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

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Stock-based awards are provided to certain employees and non-employee directors under the terms of our 2013 Stock Incentive Plan, as amended, and our 2015 Non-Employee Director Stock Incentive Plan (together, the “Plans”). The Plans are administered by the Compensation Committee of the Board of Directors. Prior to March 2009, awards under the Plans principally included a combination of at-the-money stock options and restricted stock/units. Since March 2009, equity-based awards have been granted solely in the form of restricted stock/units, with the exception of providing stock options to employees pursuant to certain pre-existing contractual obligations.

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

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

The Plans provide for adjustments to the performance-based restricted stock/units targets for significant events, including, without limitation, acquisitions, divestitures, new business ventures, certain capital transactions (including share repurchases), restructuring costs, if any, changes in accounting principles or in applicable laws or regulations, foreign exchange fluctuations, certain litigation related costs, and material changes in income tax rates. Over the performance period, the number of shares of common stock that will ultimately vest and be issued and the related compensation expense is adjusted upward or downward based upon our estimation of achieving such performance targets. The ultimate number of shares delivered to recipients and the related compensation cost recognized as an expense will be based on our actual performance metrics as defined under the Plans.

Although we believe our judgments, estimates and/or assumptions related to stock-based compensation are reasonable, making material changes to such judgments, estimates and/or assumptions could materially affect our financial results.

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Accounting Pronouncements Adopted

In March 2016, the Financial Accounting Standard Board (“FASB”) issued ASU No. 2016-09, “Stock Compensation” (Topic 718) (“ASU 2016-09”). ASU 2016-09 contains amended guidance for share-based payment accounting. We adopted the provisions of this standard during the first quarter of 2017.

Under ASU 2016-09, all excess tax benefits and tax deficiencies resulting from the difference between the deduction for tax purposes and the stock-based compensation cost recognized for financial reporting purposes are included as a component of income tax expense as of January 1, 2017. Prior to the implementation of ASU 2016-09, excess tax benefits were recorded as a component of Additional paid-in capital and tax deficiencies were recognized either as an offset to accumulated excess tax benefits or in the income statement if there were no accumulated excess tax benefits. The adoption of ASU 2016-09 reduced income tax expense by approximately \$19.6 million for the year ended December 30, 2017.

The ASU clarifies the classification of certain share based payment activities within the statements of cash flows. We have elected to prospectively present the amount of excess tax benefits related to stock compensation as a component of cash flows from operating activities. Additionally, all cash payments made to taxing authorities on an employees’ behalf when directly withholding shares for tax-withholding purposes, which were previously included as cash flows from operating activities, are now presented retrospectively as cash flows from financing activities within the statement of cash flows.

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”), which supersedes nearly all existing revenue recognition guidance under accounting principles generally accepted in United States (“U.S. GAAP”). The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

In August 2015, the FASB issued ASU No. 2015-14, “Revenue from Contracts with Customers”, which deferred the effective date by one year to December 15, 2017 for interim and annual reporting periods beginning after that date.

When effective, ASU 2014-09 will require us to use either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients; or (ii) a modified retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures to describe the nature, amount, timing and uncertainty of revenue, certain costs and cash flows arising from our contracts with customers).

We have finalized our review of our various revenue streams within our two reportable segments: (i) health care distribution and (ii) technology and value-added services. We have gathered data and quantified the amount of sales by type of revenue stream and categorized the types of sales for our business units for the purpose of comparing how we currently recognize revenue to the new standard in order to quantify the impact of this ASU. We generally anticipate having substantially similar performance obligations under the new guidance as compared with deliverables and units of account currently being recognized.

We do not anticipate any material changes to the timing or amount of revenues recognized for our health care distribution or our technology and value-added services reportable segments.

Due to the variety of our product offerings in our technology and value-added segment, the actual revenue recognition treatment required under the new standard will depend on contract-specific terms. There will be some impact on timing of revenue recognition, which will include the following:

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- We currently defer license revenue in cases where we do not have VSOE of the fair value of an element in the arrangement that has not been delivered yet such as customer support. Under Accounting Standards Codification (“ASC”) 606, the concept of VSOE is eliminated and there are no cases where revenue is deferred due to a lack of standalone selling price. As such, we will recognize certain revenue related to the software license earlier than current practice.
- Certain upfront fees related to service arrangements are currently deferred and recognized over the estimated customer life. Under ASC 606, the period over which we will recognize these fees will be reduced.
- Revenue related to term licenses is currently recognized over the license term. Under ASC 606, the license will be recognized upon delivery or license renewal.
- We currently expense contract acquisition costs. The new requirement to defer incremental contract acquisition costs and recognize them over the term of the initial contract and anticipated renewal contracts to which the costs relate will require us to capitalize additional costs. We will utilize the practical expedient permitting expensing of costs to obtain a contract when the expected amortization period is one year or less which will typically result in expensing commissions on all products or services except our software support contracts.

In these cases, we generally will recognize revenue related to technology and value-added contracts earlier than current practice, while certain contract acquisition costs will be recognized later than current practice. However, we do not believe the impact will be material to each of our segments or to our consolidated financial statements.

As of December 31, 2017, we expect to adopt the standard on a modified retrospective basis and recognize an immaterial adjustment to retained earnings reflecting the cumulative impact for the above described accounting changes.

In February 2016, the FASB issued ASU No. 2016-02, “Leases” (Topic 842) (“ASU 2016-02”). ASU 2016-02 contains guidance on accounting for leases and requires that most lease assets and liabilities and the associated rights and obligations be recognized on the Company’s balance sheet. ASU 2016-02 focuses on lease assets and lease liabilities by lessees classified as operating leases under previous generally accepted accounting principles. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. ASU 2016-02 will require disclosures regarding the amount, timing and uncertainty of cash flows arising from leases. The standard, which requires the use of a modified retrospective approach, will be effective for interim and annual periods beginning after December 15, 2018. Early adoption is

permitted. We are currently exploring the methods we can use to gather and process our operating lease data at a worldwide consolidated level.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles-Goodwill and Other” (Topic 350) (“ASU 2017-04”). ASU 2017-04 eliminates step two from the goodwill impairment test, thereby eliminating the requirement to calculate the implied fair value of a reporting unit. ASU 2017-04 will require us to perform our annual goodwill impairment test by comparing the fair value of our reporting units to the carrying value of those units. If the carrying value exceeds the fair value, we will be required to recognize an impairment charge; however, the impairment charge should not exceed the amount of goodwill allocated to such reporting unit. ASU 2017-04 is required to be implemented on a prospective basis for fiscal years beginning after December 15, 2019. We do not expect that the requirements of ASU 2017-04 will have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, “Compensation-Stock Compensation (Topic 718), Scope of Modification Accounting” (“ASU 2017-09”). ASU 2017-09 clarifies 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 is required to be implemented on a prospective basis for fiscal years beginning after December 15, 2017.

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We do not expect that the requirements of ASU 2017-09 will have a material impact on our consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging" (Topic 815) ("ASU 2017-12"), which simplifies the requirements for hedge accounting, more closely aligns hedge accounting with risk management activities and increases transparency of the scope and results of hedging activities. This ASU amends the presentation and disclosure requirements and changes how we can assess the effectiveness of our hedging relationships. This ASU will make more financial and nonfinancial hedging strategies eligible for hedge accounting. ASU 2017-12 is required to be implemented for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of ASU 2017-12 is permitted in any interim period after the issuance of this ASU. We do not expect that the requirements of ASU 2017-12 will have a material impact on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. This ASU is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted for interim and annual reporting periods beginning after December 15, 2018. This ASU is required to be adopted using the modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance of this ASU is effective. Based upon the level and makeup of our financial asset portfolio, past loan loss activity and current known activity regarding our outstanding loans, we do not expect that this ASU will have a material impact on the results of our consolidated financial statements.

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ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Foreign Currency Agreements

The value of certain foreign currencies as compared to the U.S. dollar and the value of certain underlying functional currencies of the Company, including its foreign subsidiaries, may affect our financial results. Fluctuations in exchange rates may positively or negatively affect our revenues, gross margins, operating expenses and retained earnings, all of which are expressed in U.S. dollars. Where we deem it prudent, we engage in hedging programs using primarily foreign currency forward contracts aimed at limiting the impact of foreign currency exchange rate fluctuations on earnings. We purchase short-term (i.e., 18 months or less) foreign currency forward contracts to protect against currency exchange risks associated with intercompany loans due from our international subsidiaries and the payment of merchandise purchases to foreign suppliers. We do not hedge the translation of foreign currency profits into U.S. dollars, as we regard this as an accounting exposure, not an economic exposure. A hypothetical 5% change in the average value of the U.S. dollar in 2017 compared to foreign currencies would have changed our 2017 reported Net income attributable to Henry Schein, Inc. by approximately \$7.3 million.

As of December 30, 2017, we had forward foreign currency exchange agreements, which expire through June 27, 2018, which include a mark-to-market loss of \$1.0 million as determined by quoted market prices. As of December 30, 2017, Henry Schein, Inc. had Euro to Brazilian Real (BRL) cross currency swap contracts notionally totaling an amount of €78 million, with a reported fair value of these contracts as a net asset of \$10.7 million. A 5% increase in the value of the Euro to the BRL from December 30, 2017, with all other variables held constant, would have had a favorable effect on the fair value of these swap contracts by increasing the value of these instruments by \$4.8 million.

Short-Term Investments

Revenue Recognition

We limit our credit risk with respect to our cash equivalents, short-term investments and derivative instruments, by monitoring the credit worthiness of the financial institutions who are the counter-parties to such financial instruments. As a risk management policy, we limit the amount of credit exposure by diversifying and utilizing numerous investment grade counter-parties.

Variable Interest Rate Debt

As of December 30, 2017, we had variable interest rate exposure for certain of our revolving credit facilities and our U.S. trade accounts receivable securitization.

Our revolving credit facility which we entered into on April 18, 2017 and expires in April 2022, has an interest rate that is based on the U.S. Dollar LIBOR plus a spread based on our leverage ratio at the end of each financial reporting quarter. As of December 30, 2017, there was \$320.0 million outstanding under this revolving credit facility. During the year ended December 30, 2017, the average outstanding balance under this revolving credit facility was approximately \$324.6 million. Based upon our average outstanding balance for this revolving credit facility, for each hypothetical increase of 25 basis points, our interest expense thereunder would have increased by \$0.8 million.

Our U.S trade accounts receivable securitization, which we entered into on April 17, 2013 and which expires on April 29, 2020, has an interest rate that is based upon the asset-backed commercial paper rate of 153 basis points plus 75 basis points. As of December 30, 2017, we had an outstanding balance of \$350.0 million under this securitization facility. During the year ended December 30, 2017, the average outstanding balance under this securitization facility was approximately \$349.6 million. Based upon our average outstanding balance for this

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securitization facility, for each hypothetical increase of 25 basis points, our interest expense thereunder would have increased by \$0.9 million.

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ITEM 8. Financial Statements and Supplementary Data

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| All other schedules are omitted because the required information is either inapplicable or is included in the consolidated financial statements or the notes thereto. | |
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors

Henry Schein, Inc.

Melville, NY

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Henry Schein, Inc. (the “Company”) and subsidiaries as of December 30, 2017 and December 31, 2016, the related consolidated statements of income, comprehensive income, stockholders’ equity, and cash flows for each of the three years in the period ended December 30, 2017, and the related notes and schedule presented in Item 15 (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 30, 2017 and December 31, 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 30, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated February 21, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 1984.

New York, NY

February 21, 2018

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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 \$106,592 and \$90,329

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, net | |
| | |
| 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, 153,690,146 outstanding on December 30, 2017 and 158,805,010 outstanding on December 31, 2016 | |
| | |
| Additional paid-in capital | |
| | |
| 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. | |

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HENRY SCHEIN, INC.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

| | Years Ended | | |
|---|-------------------------|-------------------------|-------------------------|
| | December 30, 2017 | December 31, 2016 | December 26, 2015 |
| Net sales | | | |
| ..... | \$12,461,543 | \$11,571,668 | \$10,629,719 |
| Cost of sales | | | |
| ..... | 9,062,440 | 8,345,195 | 7,622,765 |
| Gross profit | | | |
| ..... | 3,399,103 | 3,226,473 | 3,006,954 |
| Operating expenses: | | | |
| Selling, general and administrative | | | |
| ..... | 2,539,734 | 2,409,008 | 2,238,051 |
| Restructuring costs | | | |
| ..... | - | 45,891 | 34,931 |
| Operating income | | | |
| ..... | 859,369 | 771,574 | 733,972 |
| Other income (expense): | | | |
| Interest income | | | |
| ..... | 17,553 | 13,275 | 12,935 |
| Interest expense | | | |
| ..... | (53,654) | (31,893) | (26,008) |
| Other, net | | | |
| ..... | (420) | 2,879 | (141) |
| Income before taxes and equity in earnings of affiliates | | | |
| ..... | 822,848 | 755,835 | 720,758 |
| ..... | (362,506) | (217,958) | (211,391) |

Income taxes

Equity in earnings of affiliates

| | | | |
|---|-----------|-----------|-----------|
| | 16,587 | 18,518 | 14,060 |
| Loss on sale of equity investment | | | |
| | (17,636) | - | - |
| Net income | | | |
| | 459,293 | 556,395 | 523,427 |
| Less: Net income attributable to noncontrolling interests | | | |
| | (52,994) | (49,617) | (44,369) |
| Net income attributable to Henry Schein, Inc. | | | |
| | \$406,299 | \$506,778 | \$479,058 |

Earnings per share attributable to Henry Schein, Inc.:

Basic

\$2.59 \$3.14 \$2.89

Diluted

\$2.57 \$3.10 \$2.85

Weighted-average common shares outstanding:

Basic

156,787 161,641 165,687

Diluted

158,208 163,723 168,250

See accompanying notes.

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HENRY SCHEIN, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

Net income

Other comprehensive income (loss), net of tax:

Foreign currency translation gain (loss)

Unrealized gain (loss) from foreign currency hedging activities

Unrealized investment gain (loss).....

Pension adjustment gain (loss)

Other comprehensive income (loss), net of tax

Comprehensive income

Comprehensive income attributable to noncontrolling interests:

Net income

Foreign currency translation (gain) loss

Comprehensive income attributable to noncontrolling interests

Comprehensive income attributable to Henry Schein, Inc.

See accompanying notes.

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HENRY SCHEIN, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands, except share and per share data)

Balance, December 27, 2014

Net income (excluding \$43,588 attributable to Redeemable noncontrolling interests)

Foreign currency translation loss (excluding \$4,790 attributable to Redeemable noncontrolling interests)

Unrealized gain from foreign currency hedging activities, net of tax of \$153

Unrealized investment gain, net of tax of \$0.....

Pension adjustment gain, net of tax of \$1,008.....

Dividends paid

Other adjustments

Initial noncontrolling interests and adjustments related to business acquisitions

Change in fair value of redeemable securities

Repurchase and retirement of common stock

Stock issued upon exercise of stock options, including tax benefit of \$20,802

Stock-based compensation expense

Shares withheld for payroll taxes

Liability for cash settlement stock-based compensation awards

Balance, December 26, 2015

Net income (excluding \$48,760 attributable to Redeemable noncontrolling interests)

Foreign currency translation loss (excluding \$2,652 attributable to Redeemable noncontrolling interests)

Unrealized loss from foreign currency hedging activities, net of tax benefit of \$33.....

Unrealized investment gain, net of tax of \$0

Pension adjustment loss, net of tax of \$548.....

Dividends paid

Other adjustments

Initial noncontrolling interests and adjustments related to business acquisitions

Change in fair value of redeemable securities

| | |
|--|--|
| Repurchase and retirement of common stock | |
| Stock issued upon exercise of stock options, including tax benefit of \$23,392 | |
| Stock-based compensation expense | |
| Shares withheld for payroll taxes | |
| Liability for cash settlement stock-based compensation awards | |
| Deferred tax benefit arising from acquisition of noncontrolling interest in partnership..... | |
| Balance, December 31, 2016 | |
| Net income (excluding \$52,203 attributable to Redeemable noncontrolling interests) | |
| Foreign currency translation gain (excluding \$7,461 attributable to Redeemable noncontrolling interests) | |
| Unrealized loss from foreign currency hedging activities, net of tax benefit of \$786..... | |
| Unrealized investment loss, net of tax benefit of \$1 | |
| | |
| Pension adjustment gain, net of tax of \$314..... | |
| Dividends paid | |
| Other adjustments | |
| Purchase of noncontrolling interests | |
| Change in fair value of redeemable securities | |
| Initial noncontrolling interests and adjustments related to business acquisitions | |
| Repurchase and retirement of common stock | |
| 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, December 30, 2017 | |

See accompanying notes.

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HENRY SCHEIN, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

Cash flows from operating activities:

Net income

Adjustments to reconcile net income to net cash provided by operating activities:

 Depreciation and amortization

 Loss on sale of equity investment

 Stock-based compensation expense

 Provision for losses on trade and other accounts receivable

 Provision for (Benefit from) deferred income taxes

 Equity in earnings of affiliates

 Distributions from equity affiliates

Changes in unrecognized tax benefits

Provision for transition tax

Other

Changes in operating assets and liabilities, net of acquisitions:

 Accounts receivable

 Inventories

 Other current assets

 Accounts payable and accrued expenses

Net cash provided by operating activities

Cash flows from investing activities:

Purchases of fixed assets

Payments related to equity investments and business acquisitions, net of cash acquired

Proceeds from sale of equity investment

| | |
|---|-------|
| Proceeds from sales of available-for-sale securities | ..... |
| Other ..... | ..... |
| Net cash used in investing activities | ..... |
| Cash flows from financing activities: | |
| Proceeds from bank borrowings | ..... |
| Proceeds from issuance of long-term 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..... | ..... |
| Excess tax benefits related to stock-based compensation | ..... |
| Distributions to noncontrolling stockholders | ..... |
| Acquisitions of noncontrolling interests in subsidiaries | ..... |
| Net cash used in 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.

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

Note 1 – Significant Accounting Policies

Nature of Operations

We distribute health care products and services primarily to office-based health care practitioners with operations or affiliates in the United States, Australia, Austria, Belgium, Brazil, Canada, Chile, China, the Czech Republic, Denmark, France, Germany, Hong Kong SAR, Ireland, Israel, Italy, Japan, Liechtenstein, Luxembourg, Malaysia, the Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Slovakia, South Africa, Spain, Sweden, Switzerland, Thailand, United Arab Emirates and the United Kingdom.

Principles of Consolidation

Our consolidated financial statements include the accounts of Henry Schein, Inc. and all of our controlled subsidiaries. All intercompany accounts and transactions are eliminated in consolidation. Investments in unconsolidated affiliates, which are greater than or equal to 20% and less than or equal to 50% owned or investments in unconsolidated affiliates of less than 20% in which we have the ability to influence the operating or financial decisions, are accounted for under the equity method. See Note 6 for accounting treatment of Redeemable noncontrolling interests. Certain prior period amounts have been reclassified to conform to the current period presentation.

Use of Estimates

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.

Fiscal Year

We report our results of operations and cash flows on a 52 - 53 week basis ending on the last Saturday of December. The year ended December 30, 2017 consisted of 52 weeks, the year ended December 31, 2016 consisted of 53 weeks and the year ended December 26, 2015 consisted of 52 weeks.

Stock Split

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

Revenue Recognition

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 recorded 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 when products are shipped to customers. Such sales typically entail high-volume, low-dollar orders shipped using third-party common carriers. We believe that the shipment date is the most appropriate point in time indicating the completion of the earnings process because we have no post-shipment obligations, the product price is fixed and determinable, collection of the resulting receivable is reasonably assured and product returns are reasonably estimable.

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

Revenue derived from the sale of equipment is recognized when products are delivered to customers. Such sales typically entail scheduled deliveries of large equipment primarily by equipment service technicians. Some equipment sales require minimal installation, which is typically completed at the time of delivery.

Revenue derived from the sale of software products is recognized when products are shipped to customers. 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 recognized over the period in which the services are provided.

Revenue derived from multiple element arrangements, and the related deferral of such revenue (which is insignificant to our financial statements), is recognized as follows. When we sell software products together with related services (i.e., training and technical support) we allocate revenue to the delivered elements using the residual method, based upon vendor-specific objective evidence (“VSOE”) of the fair value of the undelivered elements, or defer it until such time as vendor-specific evidence of fair value is obtained. Multiple element 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 elements applying the following hierarchy: first VSOE, then third-party evidence (“TPE”) of selling price if VSOE is not available, and finally our estimate of the selling price if neither VSOE nor TPE is available. VSOE exists when we sell the deliverables separately and represents the actual price charged by us for each deliverable. 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. Each element that has standalone value is accounted for as a separate unit of accounting. Revenue allocated to each unit of accounting is recognized when the service is provided or the product is delivered.

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.

Cash and Cash Equivalents

We consider all highly liquid short-term investments with an original maturity of three months or less to be cash equivalents. Due to the short-term maturity of such investments, the carrying amounts are a reasonable estimate of fair value. Outstanding checks in excess of funds on deposit of \$83.6 million and \$98.5 million, primarily related to payments for inventory, were classified as accounts payable as of December 30, 2017 and December 31, 2016.

Accounts Receivable and Reserves

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. The reserve for accounts receivable is comprised of allowance for doubtful accounts and sales returns. In addition to reviewing delinquent accounts receivable, we consider many factors in estimating our reserve, including historical data, experience, customer types, credit 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.

Inventories and Reserves

Inventories consist primarily of finished goods and are valued at the lower of cost or net realizable value. Cost is determined by the first-in, first-out method for merchandise or actual cost for large equipment and high tech equipment. In accordance with our policy for inventory valuation, we consider many factors including the condition and salability of the inventory, historical sales, forecasted sales and market and economic trends. From

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

time to time, we adjust our assumptions for anticipated changes in any of these or other factors expected to affect the value of inventory.

Direct Shipping and Handling Costs

Freight and other direct shipping costs are included in cost of sales. Direct handling costs, which represent primarily direct compensation costs of employees who pick, pack and otherwise prepare, if necessary, merchandise for shipment to our customers are reflected in selling, general and administrative expenses. Direct shipping and handling costs were \$92.6 million, \$84.1 million and \$78.7 million for the years ended December 30, 2017, December 31, 2016 and December 26, 2015.

Advertising and Promotional Costs

We generally expense advertising and promotional costs as incurred. Total advertising and promotional expenses were \$15.7 million, \$18.4 million and \$19.2 million for the years ended December 30, 2017, December 31, 2016 and December 26, 2015. Additionally, advertising and promotional costs incurred in connection with direct marketing, including product catalogs and printed material, are deferred and amortized on a straight-line basis over the period which is benefited, generally not exceeding one year. As of December 30, 2017 and December 31, 2016, we had \$4.0 million and \$3.5 million of deferred direct marketing expenses included in other current assets.

Supplier Rebates

Supplier rebates are included as a reduction of cost of sales and are recognized over the period they are earned. The factors we consider in estimating supplier rebate accruals include forecasted inventory purchases and sales, in conjunction with supplier rebate contract terms, which generally provide for increasing rebates based on either increased purchase or sales volume.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation or amortization. Depreciation is computed primarily under the straight-line method (see Note 2 - Property and Equipment, Net for estimated useful lives). Amortization of leasehold improvements is computed using the straight-line method over the lesser of the useful life of the assets or the lease term.

Capitalized software costs consist of costs to purchase and develop software. Costs incurred during the application development stage for software bought and further customized by outside suppliers for our use and software developed by a supplier for our proprietary use are capitalized. Costs incurred for our own personnel who are directly associated with software development are capitalized.

Income Taxes

We account for income taxes under an asset and liability approach that requires the recognition of deferred income tax assets and liabilities for the expected future tax consequences of events that have been recognized in our financial statements or tax returns. In estimating future tax consequences, we generally consider all expected future events other than enactments of changes in tax laws or rates. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date. Our accounting for the Tax Cuts and Jobs Act, enacted on December 22, 2017, is further discussed in Note 12 of "Notes to Consolidated Financial Statements." We file a consolidated U.S. federal income tax return with our 80% or greater owned U.S. subsidiaries.

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

Foreign Currency Translation and Transactions

The financial position and results of operations of our foreign subsidiaries are determined using local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the exchange rate in effect at each year-end. Income statement accounts are translated at the average rate of exchange prevailing during the year. Translation adjustments arising from the use of differing exchange rates from period to period are included in Accumulated other comprehensive income in stockholders' equity. Gains and losses resulting from foreign currency transactions are included in earnings.

Risk Management and Derivative Financial Instruments

We use derivative instruments to minimize our exposure to fluctuations in foreign currency exchange rates. Our objective is to manage the impact that foreign currency exchange rate fluctuations could have on recognized asset and liability fair values, earnings and cash flows. Our risk management policy requires that derivative contracts used as hedges be effective at reducing the risks associated with the exposure being hedged and be designated as a hedge at the inception of the contract. We do not enter into derivative instruments for speculative purposes. Our derivative instruments primarily include foreign currency forward agreements related to certain intercompany loans and certain forecasted inventory purchase commitments with foreign suppliers.

Our foreign currency forward agreements related to forecasted inventory purchase commitments are designated as cash flow hedges. Our foreign currency forward agreements related to foreign currency balance sheet exposure provide economic hedges but are not designated as hedges for accounting purposes.

For agreements not designated as hedges, changes in the value of the derivative, along with the transaction gain or loss on the hedged item, are recorded in earnings. For cash flow hedges, the effective portion of the changes in the fair value of the derivative, along with any gain or loss on the hedged item, is recorded as a component of Accumulated other comprehensive income in stockholders' equity and subsequently reclassified into earnings in the period(s) during which the hedged transaction affects earnings.

We classify the cash flows related to our hedging activities in the same category on our consolidated statements of cash flows as the cash flows related to the hedged item.

Acquisitions

The net assets of businesses purchased are recorded at their fair value at the acquisition date and our consolidated financial statements include their results of operations from that date. Any excess of acquisition consideration over the fair value of identifiable net assets acquired is recorded as goodwill. The major classes of assets and liabilities that we generally allocate purchase price to, excluding goodwill, include identifiable intangible assets (i.e., trademarks and trade names, customer relationships and lists and non-compete agreements), property, plant and equipment, deferred taxes and other current and long-term assets and liabilities. The estimated fair value of identifiable intangible assets is based on critical estimates, judgments and assumptions derived from: analysis of market conditions; discount rate; discounted cash flows; customer retention rates; and estimated useful lives. Some prior owners of such acquired subsidiaries are eligible to receive additional purchase price cash consideration if certain financial targets are met. For the years ended December 30, 2017, December 31, 2016 and December 26, 2015, there were no material adjustments recorded in our consolidated statement of income relating to changes in estimated contingent purchase price liabilities.

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. Their interests in these subsidiaries are classified outside permanent equity on our consolidated balance sheets and are carried at the estimated redemption amounts. The redemption amounts have been estimated based on expected future earnings and cash flow and, if such

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

earnings and cash flow are not achieved, the value of the redeemable noncontrolling interests might be impacted. Changes in the estimated redemption amounts of the noncontrolling interests subject to put options are reflected 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.

Goodwill and Other Indefinite-Lived Intangible Assets

Goodwill and other indefinite-lived intangible assets (primarily trademarks) are not amortized, but are subject to impairment analysis at least once annually. Such impairment analyses for goodwill require a comparison of the fair value to the carrying value of reporting units. We regard our reporting units to be our operating segments: health care distribution (global dental, animal health and medical) and technology and value-added services. Goodwill was allocated to such reporting units, for the purposes of preparing our impairment analyses, based on a specific identification basis.

For the years ended December 30, 2017 and December 31, 2016, and December 26, 2015 we tested goodwill for impairment using a quantitative analysis consisting of a two-step approach. The first step of our quantitative analysis consists of a comparison of the carrying value of our reporting units, including goodwill, to the estimated fair value of our reporting units using a discounted cash flow methodology. If step one results in the carrying value of the reporting unit exceeding the fair value of such reporting unit, we would then proceed to step two which would require us to calculate the amount of impairment loss, if any, that we would record for such reporting unit. The calculation of the impairment loss in step two would be equivalent to the reporting unit’s carrying value of goodwill less the implied fair value of such goodwill.

Our use of a discounted cash flow methodology includes estimates of future revenue based upon budget projections and growth rates which take into account estimated inflation rates. We also develop estimates for future levels of gross and operating profits and projected capital expenditures. Our methodology also includes the use of estimated discount rates based upon industry and competitor analysis as well as other factors. The estimates that we use in our discounted cash flow methodology involve many assumptions by management that are based upon future growth projections.

Our impairment analysis for indefinite-lived intangibles consists of a comparison of the fair value to the carrying value of the assets. This comparison is made based on a review of historical, current and forecasted sales and gross profit levels, as well as a review of any factors that may indicate potential impairment. For indefinite-lived intangible assets, a present value technique, such as estimates of future cash flows, is utilized. We assess the potential impairment of goodwill and other indefinite-lived intangible assets annually (at the beginning of our fourth quarter) and on an interim basis whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Some factors we consider important that could trigger an interim impairment review include:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of our use of acquired assets or the strategy for our overall business (e.g., decision to divest a business); or
- significant negative industry or economic trends.

If we determine through the impairment review process that goodwill or other indefinite-lived intangible assets are impaired, we record an impairment charge in our consolidated statements of income.

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

For the years ended December 30, 2017, December 31, 2016 and December 26, 2015, the results of our goodwill and intangible impairment analysis did not result in any impairments.

Long-Lived Assets

Long-lived assets, other than goodwill and other indefinite-lived intangibles, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows to be derived from such assets.

Definite-lived intangible assets primarily consist of non-compete agreements, trademarks, trade names, customer lists, customer relationships and intellectual property. For long-lived assets used in operations, impairment losses are only recorded if the asset's carrying amount is not recoverable through its undiscounted, probability-weighted future cash flows. We measure the impairment loss based on the difference between the carrying amount and the estimated fair value. When an impairment exists, the related assets are written down to fair value.

Cost of Sales

The primary components of cost of sales include the cost of the product (net of purchase discounts, supplier chargebacks and rebates) and inbound and outbound freight charges. Costs related to purchasing, receiving, inspections, warehousing, internal inventory transfers and other costs of our distribution network are included in selling, general and administrative expenses along with other operating costs.

As a result of different practices of categorizing costs associated with distribution networks throughout our industry, our gross margins may not necessarily be comparable to other distribution companies. Total distribution network costs were \$83.2 million, \$79.4 million and \$70.4 million for the years ended December 30, 2017, December 31, 2016 and December 26, 2015.

Comprehensive Income

Comprehensive income includes certain gains and losses that, under accounting principles generally accepted in the United States, 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) from foreign currency hedging activities, unrealized investment gain (loss) and pension adjustment gain (loss).

Accounting Pronouncements Adopted

In March 2016, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, "Stock Compensation" (Topic 718) ("ASU 2016-09"). ASU 2016-09 contains amended guidance for share-based payment accounting. We adopted the provisions of this standard during the first quarter of 2017.

Under ASU 2016-09, all excess tax benefits and tax deficiencies resulting from the difference between the deduction for tax purposes and the stock-based compensation cost recognized for financial reporting purposes are included as a component of income tax expense as of January 1, 2017. Prior to the implementation of ASU 2016-09, excess tax benefits were recorded as a component of Additional paid-in capital and tax deficiencies were recognized either as an offset to accumulated excess tax benefits or in the income statement if there were no accumulated excess tax benefits. The adoption of ASU 2016-09 reduced income tax expense by approximately \$19.6 million for the year ended December 30, 2017.

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

The ASU clarifies the classification of certain share based payment activities within the statements of cash flows. We have elected to prospectively present the amount of excess tax benefits related to stock compensation as a component of cash flows from operating activities. Additionally, all cash payments made to taxing authorities on an employees' behalf when directly withholding shares for tax-withholding purposes, which were previously included as cash flows from operating activities, are now presented retrospectively as cash flows from financing activities within the statement of cash flows.

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under accounting principles generally accepted in United States ("U.S. GAAP"). The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers", which deferred the effective date by one year to December 15, 2017 for interim and annual reporting periods beginning after that date.

When effective, ASU 2014-09 will require us to use either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients; or (ii) a modified retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures to describe the nature, amount, timing and uncertainty of revenue, certain costs and cash flows arising from our contracts with customers).

We have finalized our review of our various revenue streams within our two reportable segments: (i) health care distribution and (ii) technology and value-added services. We have gathered data and quantified the amount of sales by type of revenue stream and categorized the types of sales for our business units for the purpose of comparing how we currently recognize revenue to the new standard in order to quantify the impact of this ASU. We generally anticipate having substantially similar performance obligations under the new guidance as compared with deliverables and units of account currently being recognized.

We do not anticipate any material changes to the timing or amount of revenues recognized for our health care distribution or our technology and value-added services reportable segments.

Due to the variety of our product offerings in our technology and value-added segment, the actual revenue recognition treatment required under the new standard will depend on contract-specific terms. There will be some impact on timing of revenue recognition, which will include the following:

- We currently defer license revenue in cases where we do not have VSOE of the fair value of an element in the arrangement that has not been delivered yet such as customer support. Under Accounting Standards Codification (“ASC”) 606, the concept of VSOE is eliminated and there are no cases where revenue is deferred due to a lack of standalone selling price. As such, we will recognize certain revenue related to the software license earlier than current practice.
- Certain upfront fees related to service arrangements are currently deferred and recognized over the estimated customer life. Under ASC 606, the period over which we will recognize these fees will be reduced.

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

- Revenue related to term licenses is currently recognized over the license term. Under ASC 606, the license will be recognized upon delivery or license renewal.
- We currently expense contract acquisition costs. The new requirement to defer incremental contract acquisition costs and recognize them over the term of the initial contract and anticipated renewal contracts to which the costs relate will require us to capitalize additional costs. We will utilize the practical expedient permitting expensing of costs to obtain a contract when the expected amortization period is one year or less which will typically result in expensing commissions on all products or services except our software support contracts.

In these cases, we generally will recognize revenue related to technology and value-added contracts earlier than current practice, while certain contract acquisition costs will be recognized later than current practice. However, we do not believe the impact will be material to each of our segments or to our consolidated financial statements.

As of December 31, 2017, we expect to adopt the standard on a modified retrospective basis and recognize an immaterial adjustment to retained earnings reflecting the cumulative impact for the above described accounting changes.

In February 2016, the FASB issued ASU No. 2016-02, “Leases” (Topic 842) (“ASU 2016-02”). ASU 2016-02 contains guidance on accounting for leases and requires that most lease assets and liabilities and the associated rights and obligations be recognized on the Company’s balance sheet. ASU 2016-02 focuses on lease assets and lease liabilities by lessees classified as operating leases under previous generally accepted accounting principles. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. ASU 2016-02 will require disclosures regarding the amount, timing and uncertainty of cash flows arising from leases. The standard, which requires the use of a modified retrospective approach, will be effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. We are currently exploring the methods we can use to gather and process our operating lease data at a worldwide consolidated level.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles-Goodwill and Other” (Topic 350) (“ASU 2017-04”). ASU 2017-04 eliminates step two from the goodwill impairment test, thereby eliminating the requirement to calculate the implied fair value of a reporting unit. ASU 2017-04 will require us to perform our annual goodwill impairment test by comparing the fair value of our reporting units to the carrying value of those units. If the carrying value exceeds the fair value, we will be required to recognize an impairment charge; however, the impairment charge should not exceed the amount of goodwill allocated to such reporting unit. ASU 2017-04 is required to be implemented on a prospective basis for fiscal years beginning after December 15, 2019. We do not expect that the requirements of ASU 2017-04 will have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, “Compensation-Stock Compensation (Topic 718), Scope of Modification Accounting” (“ASU 2017-09”). ASU 2017-09 clarifies 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 is required to be implemented on a prospective basis for fiscal years beginning after December 15, 2017. We do not expect that the requirements of ASU 2017-09 will have a material impact on our consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging” (Topic 815) (“ASU 2017-12”), which simplifies the requirements for hedge accounting, more closely aligns hedge accounting with risk management activities and increases transparency of the scope and results of hedging activities. This ASU amends the presentation and disclosure requirements and changes how we can assess the effectiveness of our hedging

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

relationships. This ASU will make more financial and nonfinancial hedging strategies eligible for hedge accounting. ASU 2017-12 is required to be implemented for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of ASU 2017-12 is permitted in any interim period after the issuance of this ASU. We do not expect that the requirements of ASU 2017-12 will have a material impact on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. This ASU is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted for interim and annual reporting periods beginning after December 15, 2018. This ASU is required to be adopted using the modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance of this ASU is effective. Based upon the level and makeup of our financial asset portfolio, past loan loss activity and current known activity regarding our outstanding loans, we do not expect that this ASU will have a material impact on the results of our consolidated financial statements.

Note 2 – Property and Equipment, Net

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed primarily under the straight-line method over the estimated useful life. Depreciation of leasehold improvements is computed using the straight-line method over the lesser of the useful life of the assets or the lease term. Property and equipment, including related estimated useful lives, consisted of the following:

| | December 30, 2017 |
|--------------------------------------|-------------------------|
| Land | \$21,019 |
| Buildings and permanent improvements | 143,250 |
| Leasehold improvements | 106,236 |
| | 138,478 |
| Comprehensive Income | 181 |

| | |
|-----------------------------------|-----------|
| Machinery and warehouse equipment | |
| | |
| Furniture, fixtures and other | |
| ..... | 149,136 |
| Computer equipment and software | |
| ..... | 432,379 |
| | 990,498 |
| Less accumulated depreciation | |
| ..... | (615,497) |
| Property and equipment, net | |
| ..... | \$375,001 |

| | |
|--|-----------------------------------|
| | Estimated Useful Lives (in years) |
| Buildings and permanent improvements | 40 |
| Machinery and warehouse equipment | 5-10 |
| Furniture, fixtures and other | 3-10 |
| Computer equipment and software | 3-10 |

Property and equipment related depreciation expense for the years ended December 30, 2017, December 31, 2016 and December 26, 2015 was \$67.3 million, \$63.8 million and \$60.2 million.

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

Note 3 – Goodwill and Other Intangibles, Net

The changes in the carrying amount of goodwill for the years ended December 30, 2017 and December 31, 2016 were as follows:

| | |
|------------------------------------|-------|
| Balance as of December 26, 2015 | \$1,7 |
| Adjustments to goodwill: | |
| Acquisitions | 110 |
| Foreign currency translation | (27) |
| Balance as of December 31, 2016 | 1,8 |
| Adjustments to goodwill: | |
| Acquisitions | 210 |
| Foreign currency translation | 48 |
| Balance as of December 30, 2017 | \$2,0 |

Other intangible assets consisted of the following:

| | |
|---|--|
| Non-compete agreements | |
| Trademarks / trade names - definite lived | |
| Trademarks / trade names - indefinite lived | |
| Customer relationships and lists | |
| Other | |
| Total | |

Non-compete agreements represent amounts paid primarily to key employees and prior owners of acquired businesses, as well as certain sales persons, in exchange for placing restrictions on their ability to pose a competitive risk to us. Such amounts are amortized, on a straight-line basis over the respective non-compete period, which generally commences upon termination of employment or separation from us. The weighted-average non-compete period for agreements currently being amortized was approximately 4.7 years as of December 30, 2017.

Trademarks, trade names, customer lists and customer relationships were established through business acquisitions. Definite-lived trademarks and trade names are amortized on a straight-line basis over a weighted-average period of approximately 7.9 years as of December 30, 2017. Customer relationships and customer lists are definite-lived intangible assets that are amortized on a straight-line basis over a weighted-average period of approximately 10.8 years as of December 30, 2017.

Amortization expense related to definite-lived intangible assets for the years ended December 30, 2017, December 31, 2016 and December 26, 2015 was \$116.5 million, \$98.2 million and \$92.9 million. The annual amortization expense expected to be recorded for existing intangibles assets for the years 2018 through 2022 is \$119.5 million, \$111.3 million, \$102.4 million, \$90.4 million and \$65.2 million.

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

Note 4 – Investments and Other

Investments and other consisted of the following:

| | | |
|---|-------|----|
| Investment in unconsolidated affiliates | ..... |  |
| Non-current deferred foreign, state and local income taxes | ..... |  |
| Notes receivable (1) | ..... |  |
| Capitalized costs for internally generated software for resale | ..... |  |
| Distribution rights and exclusivity agreements, net of amortization | ..... |  |
| Acquisition related indemnification | ..... |  |
| Other long-term assets | ..... |  |
| Total | ..... | \$ |

(1) Long-term notes receivable carry interest rates ranging from 1.0% to 12.0% and are due in varying installments through December 31, 2030.

Amortization expense related to other long-term assets for the years ended December 30, 2017, December 31, 2016 and December 26, 2015 was \$9.3 million, \$7.8 million and \$6.1 million.

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 December 30, 2017 and December 31, 2016, the borrowings outstanding on this revolving credit facility and the prior credit facility were \$320.0 million and \$65.0 million, respectively. As of December 30, 2017 and December 31, 2016, there were \$11.3 million and \$13.0 million of letters of credit, respectively, provided to third parties under this credit facility and the prior credit facility.

As of December 30, 2017 and December 31, 2016, we had various other short-term bank credit lines available, of which \$421.7 million and \$372.5 million, respectively, were outstanding. At December 30, 2017 and December 31, 2016, borrowings under all of our credit lines had a weighted average interest rate of 2.27% and 1.61%, 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

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

The components of our private placement facility borrowings as of December 30, 2017 are presented in the following table:

| 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) | 35,714 | 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 |
| Less: Deferred debt issuance costs | (419) | | |
| | \$ 535,295 | | |

(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 and \$350.0 million as of December 30, 2017 and December 31, 2016, respectively. 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%. At December 31, 2016, the interest rate on borrowings under this facility was based on the asset-backed commercial paper rate of 101 basis points plus 75 basis points, for a combined rate of 1.76%.

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.

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

Long-term debt

Long-term debt consisted of the following:

| | |
|---|--|
| Private placement facilities | |
| U.S. trade accounts receivable securitization | |
| Note payable to bank at a weighted-average interest rate of 21.37% at December 31, 2016..... | |
| Various collateralized and uncollateralized loans payable with interest, in varying installments through 2022 at interest rates ranging from 2.56% to 12.90% at December 30, 2017 and ranging from 2.56% to 12.90% at December 31, 2016..... | |
| Capital lease obligations (see Note 17) | |
| Total | |
| Less current maturities | |
| Total long-term debt | |

As of December 30, 2017, the aggregate amounts of long-term debt, including capital lease obligations and net of deferred debt issuance costs of \$419, maturing in each of the next five years and thereafter are as follows:

| | |
|------------|-----|
| 2018 | \$1 |
| 2019 | 8 |
| 2020 | 4 |
| 2021 | 1 |
| | 3 |

2022

.....
Thereafter

.....
Total

3
\$9

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

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 years ended December 30, 2017, December 31, 2016 and December 26, 2015 are presented in the following table:

| | |
|---|------|
| | De |
| | 30, |
| | 201 |
| Balance, beginning of period | \$60 |
| Decrease in redeemable noncontrolling interests due to redemptions | (4 |
| Increase in redeemable noncontrolling interests due to business acquisitions..... | 78 |
| Net income attributable to redeemable noncontrolling interests | 52 |
| Dividends declared | (2 |
| Effect of foreign currency translation gain (loss) attributable to redeemable noncontrolling interests | 7, |
| Change in fair value of redeemable securities | 10 |
| Balance, end of period | \$8 |

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

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 gain (loss) and pension adjustment gain (loss).

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

| | December 30, 2017 | D 31 20 |
|--|-------------------------|---------------|
| Attributable to Redeemable noncontrolling interests: | | |
| Foreign currency translation adjustment | \$(5,564) | \$ |
| Attributable to noncontrolling interests: | | |
| Foreign currency translation adjustment | \$539 | \$ |
| Attributable to Henry Schein, Inc.: | | |
| Foreign currency translation loss | \$(112,439) | \$ |
| Unrealized gain (loss) from foreign currency hedging activities | (782) | (|
| Unrealized investment loss | (3) | - |
| Pension adjustment loss | (16,843) | (|
| Accumulated other comprehensive loss | \$(130,067) | \$ |
| Total Accumulated other comprehensive loss | \$(135,092) | \$ |

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

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

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

During the years ended December 30, 2017, December 31, 2016 and December 26, 2015, we recognized, as a component of our comprehensive income, a foreign currency translation gain (loss) of \$191.9 million, \$(98.4) million and \$(134.0) 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 years ended December 30, 2017, December 31, 2016 and December 26, 2015 was impacted by changes in foreign currency exchange rates as follows:

| | For Cu Tra Ga (Lo for Ye En De 30, 20 |
|----------------------------|---|
| Currency | |
| Euro | \$1 |
| British Pound | 2 |
| Australian Dollar | 1 |
| Canadian Dollar | 9 |
| Polish Zloty..... | 1 |
| Swiss Franc | 5 |
| Brazilian Real | (2 |
| All other currencies | 1 |
| Total | \$1 |

| | |
|----------------------|------|
| Currency | |
| British Pound | |
| ..... | \$(5 |
| Euro..... | (4 |
| Polish Zloty | |
| ..... | (3 |
| Canadian Dollar | |
| ..... | 3 |
| Brazilian Real | |
| | 2 |
| Swiss Franc | |
| | (2 |
| Australian Dollar | |
| | (5 |
| All other currencies | |
| | (2 |
| Total | \$(9 |

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

| | |
|-------------------------------|---|
| | For Cu Tra Ga (Lo for Ye En De 26, 20 |
| Currency | |
| Euro | \$(7 |
| Australian Dollar | (1 |
| British Pound | (1 |
| Canadian Dollar | (1 |
| Brazilian Real..... | (5 |
| Polish Zloty | (3 |
| Swiss Franc..... | 9 |
| All other currencies | (3 |
| Total | \$(1 |

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

| | |
|---|-----------------------|
| | Decemb 30, 2017 |
| Comprehensive income attributable to Henry Schein, Inc. | \$593,27 |
| Comprehensive income attributable to | |

| | |
|--|----------|
| noncontrolling interests | 1,443 |
| Comprehensive income attributable to Redeemable noncontrolling interests | 59,664 |
| Comprehensive income | \$654,38 |

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).

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

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HENRY SCHEIN, INC.

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(in thousands, except per share data)

prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

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

Investments and notes receivable

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

Debt

The fair value of our debt (including bank credit lines) as of December 30, 2017 and December 31, 2016 was estimated at \$1,666.1 million and \$1,218.9 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.

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

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 December 30, 2017 and December 31, 2016:

| | Dece |
|---|------|
| | Lev |
| Assets: | |
| Derivative contracts | \$- |
| Total assets | \$- |
| Liabilities: | |
| Derivative contracts | \$- |
| Total liabilities | \$- |
| Redeemable noncontrolling interests | \$- |
| | Dece |
| | Lev |
| Assets: | |
| Derivative contracts | \$- |
| Total assets | \$- |
| Liabilities: | |
| Derivative contracts | \$- |
| Total liabilities | \$- |
| Redeemable noncontrolling interests | \$- |

Note 9 – Business Acquisitions and Divestiture

Acquisitions

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

On May 2, 2017, we announced the acquisition of Southern Anesthesia and Surgical, Inc. (SAS), a leading U.S. distributor of anesthesia and surgical supplies to oral surgeons, dental anesthesiologists, and periodontists. SAS had sales in 2016 of approximately \$72 million. As a result of this acquisition, we recorded \$76.5 million of initial goodwill.

On August 28, 2017, we announced the acquisition of Merritt Veterinary Supplies, Inc. (Merritt), an independent supplier of animal health products. Merritt had sales in 2016 of approximately \$115 million. As a result of this acquisition, we recorded \$33.4 million of initial goodwill.

We completed acquisitions during the year ended December 30, 2017, which were immaterial to our financial statements individually and in the aggregate and resulted in the recording of approximately \$43.9 million of initial goodwill through preliminary purchase price allocations. Total acquisition transaction costs incurred in the year ended December 30, 2017 were immaterial to our financial results.

On January 12, 2016, we announced that our U.S. animal health business, Henry Schein Animal Health, completed the purchase of an 80.1% interest in Vetstreet, Inc., a leading software as a service (SaaS) provider of marketing solutions and health information analytics to veterinary practices and animal health product

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

manufacturers. Vetstreet had sales in 2015 of approximately \$40 million. As a result of this acquisition, we recorded \$17.9 million of initial goodwill.

On February 3, 2016, we announced the completion of the acquisition of RxWorks, Inc., a leading provider of veterinary practice management software primarily to customers in Australia, New Zealand, the United Kingdom, the Netherlands and other countries around the world. The company had sales for the 12 months ended June 30, 2015 of approximately \$7 million. As a result of this acquisition, we recorded \$4.2 million of initial goodwill.

On February 5, 2016, we announced that we have entered into an agreement to acquire a majority ownership interest in Dental Cremer S.A., a distributor of dental supplies and equipment in Brazil. Headquartered in Blumenau, Brazil, Dental Cremer, which is the dental distribution business of Cremer S.A., had 2015 sales of approximately \$70 million. On December 28, 2016, we completed this transaction. As a result of this acquisition, we recorded \$37.5 million of initial goodwill.

On March 23, 2016, we announced that we entered into a definitive agreement with J. Morita Corp. to expand our presence in Japan. This transaction was completed on June 20, 2016 and, as a result, we own a 50% non-consolidating interest in One Piece Corp., a subsidiary of J. Morita, one of the world's largest manufacturers and distributors of dental equipment and supplies. One Piece Corp. had aggregate sales in fiscal 2015 of approximately \$125 million.

We completed certain other acquisitions during the year ended December 31, 2016, which were immaterial to our financial statements individually and in the aggregate and resulted in the recording of approximately \$69.9 million of initial goodwill through preliminary purchase price allocations. Total acquisition transaction costs incurred in the year ended December 31, 2016 were immaterial to our financial results.

On March 31, 2015, we completed the acquisition of scil animal care company GmbH (“scil”), a specialty distributor of animal health laboratory and imaging diagnostic products and services to veterinarians primarily in North America and Europe. scil had annual sales in 2014 of approximately \$83 million. As a result of this acquisition, we recorded \$3.5 million of initial goodwill.

On July 10, 2015, we announced that, during the second quarter ended June 27, 2015, we made a 50% non-consolidating ownership investment in Maravet S.A. (“Maravet”), an animal health distributor in Romania. Maravet is a privately held company with annual sales of approximately \$23 million.

On September 1, 2015, we announced the completion of the acquisition of an 85% interest in Jorgen Kruise A/S (“KRUUSE”), a leading distributor of veterinary supplies in Denmark, Norway and Sweden. KRUUSE had sales in 2014 of approximately \$90 million. As a result of this acquisition, we recorded \$20.7 million of initial goodwill.

On November 30, 2015, we completed the acquisition of Dental Trey (S.R.L.) (“Dental Trey”), a leading distributor of dental consumable merchandise and equipment in Italy. Dental Trey had sales for the 12 months ended June 30, 2015 of approximately \$49 million. As a result of this acquisition, we recorded \$8.5 million of initial goodwill.

We completed certain other acquisitions during the year ended December 26, 2015, which were immaterial to our financial statements individually and in the aggregate and resulted in the recording of approximately \$27.1 million of initial goodwill through preliminary purchase price allocations. Total acquisition transaction costs incurred in the year ended December 26, 2015 were immaterial to our financial results.

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(in thousands, except per share data)

Note 10 -Plans of Restructuring

On November 6, 2014, we announced a corporate initiative to rationalize our operations and provide expense efficiencies, which was expected to be completed by the end of fiscal 2015. This initiative originally planned for the elimination of approximately 2% to 3% of our workforce and the closing of certain facilities. We subsequently announced our plan to extend these restructuring activities through the end of 2016 to further implement cost-savings initiatives, which ultimately resulted in the elimination of approximately 900 positions, representing slightly more than 4% of our workforce. The total costs associated with the actions for this restructuring included \$34.9 million pre-tax, which was recorded in fiscal 2015, and \$45.9 million pre-tax, which was recorded in fiscal 2016. The costs associated with this restructuring are included in a separate line item, “Restructuring costs” within our consolidated statements of income.

As of December 31, 2016 our restructuring activities are complete and we did not incur any additional restructuring charges in fiscal 2017.

The following table shows the amounts expensed and paid for restructuring costs that were incurred during our 2017, 2016 and 2015 fiscal years and the remaining accrued balance of restructuring costs as of December 30, 2017, which is included in Accrued expenses: Other and Other liabilities within our consolidated balance sheet:

| | Severance Costs | Facility Closing Costs | Other | Total |
|--------------------------------|--------------------|------------------------------|---------|----------|
| Balance, December 27, 2014 | | | | |
| ..... | \$ 120 | \$ 301 | \$- | \$ 421 |
| Provision | | | | |
| ..... | 26,742 | 5,706 | 2,483 | 34,931 |
| Payments and other adjustments | | | | |
| | (17,759) | (3,856) | (1,672) | (23,287) |

Comprehensive Income

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| | | | | |
|--------------------------------|----------|---------|---------|----------|
| Balance, December 26, 2015 | | | | |
| | \$9,103 | \$2,151 | \$811 | \$12,065 |
| Provision | | | | |
| | 40,728 | 3,587 | 1,576 | 45,891 |
| Payments and other adjustments | | | | |
| | (27,477) | (3,284) | (1,492) | (32,253) |
| Balance, December 31, 2016 | | | | |
| | \$22,354 | \$2,454 | \$895 | \$25,703 |
| Provision | | | | |
| | - | - | - | - |
| Payments and other adjustments | | | | |
| | (19,136) | (1,139) | (871) | (21,146) |
| Balance, December 30, 2017 | | | | |
| | \$3,218 | \$1,315 | \$24 | \$4,557 |

The following table shows, by reportable segment, the amounts expensed and paid for restructuring costs that were incurred during our 2017, 2016 and 2015 fiscal years and the remaining accrued balance of restructuring costs as of December 30, 2017:

| | Health Care Distribution | Technology and Value-Added Services | Total |
|--------------------------------|--------------------------------|--|-----------|
| Balance, December 27, 2014 | | | |
| | \$ 421 | \$ - | \$ 421 |
| Provision | | | |
| | 33,889 | 1,042 | 34,931 |
| Payments and other adjustments | | | |
| | (22,248) | (1,039) | (23,287) |
| Balance, December 26, 2015 | | | |
| | \$ 12,062 | \$ 3 | \$ 12,065 |
| Provision | | | |
| | 44,082 | 1,809 | 45,891 |
| Payments and other adjustments | | | |
| | (30,906) | (1,347) | (32,253) |

| | | | |
|--------------------------------|-----------|--------|----------|
| Balance, December 31, 2016 | | | |
| ..... | \$ 25,238 | \$ 465 | \$25,703 |
| Provision | | | |
| | - | - | - |
| Payments and other adjustments | | | |
| | (20,681) | (465) | (21,146) |
| Balance, December 30, 2017 | | | |
| | \$ 4,557 | \$ - | \$4,557 |

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

Note 11 – Earnings Per Share

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

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

| | |
|--|--|
| Basic | |
| Effect of dilutive securities: | |
| Stock options, restricted stock and restricted stock units | |
| Diluted | |

Note 12 – Income Taxes

Income before taxes and equity in earnings of affiliates was as follows:

| | |
|----------------|---------------------------|
| Domestic | Year Dec 30, 201 |
| | \$64 17 |

Foreign

.....
 Total \$82

The provisions for income taxes were as follows:

| | Years Decem 30, 2017 |
|--|-------------------------------|
| Current income tax expense: | |
| U.S. Federal | |
| ..... | \$283,4 |
| State and local | |
| ..... | 28,52 |
| Foreign | |
| ..... | 50,08 |
| Total current | 362,0 |
| Deferred income tax expense (benefit): | |
| U.S. Federal | |
| ..... | 13,68 |
| State and local | |
| | 856 |
| Foreign | |
| | (14,0 |
| Total deferred | 485 |
| Total provision | \$362,5 |

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

The tax effects of temporary differences that give rise to our deferred income tax asset (liability) were as follows:

Non-current deferred income tax asset (liability):

| | |
|--|--|
| Inventory, premium coupon redemptions and accounts receivable valuation allowances | |
| Uniform capitalization adjustments to inventories | |
| Property and equipment | |
| Stock-based compensation | |
| Intangibles amortization | |
| Other non-current asset (liability) | |
| Net operating losses and other carryforwards | |
| Total non-current deferred tax liability | |
| Valuation allowance for non-current deferred tax assets (1) | |
| Net deferred income tax liability (2)..... | |

(1) Primarily relates to operating losses of acquired subsidiaries, the benefits of which are uncertain. Any future reductions of such valuation allowances will be reflected as a reduction of income tax expense in accordance with the provisions of ASC Topic 805, “Business Combinations.”

(2) Certain deferred tax amounts do not have a right of offset and are therefore reflected on a gross basis in non-current assets and liabilities in our consolidated balance sheets.

The assessment of the amount of value assigned to our deferred tax assets under the applicable accounting rules is judgmental. We are required to consider all available positive and negative evidence in evaluating the likelihood that we will be able to realize the benefit of our deferred tax assets in the future. Such evidence includes scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and the results of recent operations. Since this evaluation requires consideration of events that may occur some years into the future, there is an element of judgment involved. Realization of our deferred tax assets is dependent on generating sufficient taxable income in future periods. We believe that it is more likely than not that future taxable income will be sufficient to allow us to recover substantially all of the value assigned to our deferred tax assets. However, if future events cause us to conclude that it is not more likely than not that we will be able to recover all of the value assigned to our

deferred tax assets, we will be required to adjust our valuation allowance accordingly.

As of December 30, 2017, we had foreign net operating loss carryforwards of \$9.1 million, which can be utilized against future foreign income through December 31, 2025. Additionally, as of December 30, 2017, there were foreign net operating loss carryforwards of \$156.4 million that have an indefinite life.

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

The tax provisions differ from the amount computed using the federal statutory income tax rate as follows:

| | |
|--|---------------------------|
| | Year Dec 30, 201 |
| Income tax provision at federal statutory rate | \$28 |
| | |
| State income tax provision, net of federal income tax effect | 12 |
| | |
| Foreign income tax provision | (2) |
| | |
| Pass through noncontrolling interest | (1) |
| | |
| Valuation allowance | 1, |
| | |
| Unrecognized tax benefits and audit settlements | 3, |
| | |
| Interest expense related to loans | (1) |
| | |
| Excess tax benefits related to stock compensation | (1) |
| | |
| Transition tax on deemed repatriation of foreign earnings | 14 |
| | |
| Revaluation of deferred tax assets and liabilities | 2, |
| | |
| Other | (1) |
| | |
| Total income tax provision | \$36 |

For the year ended December 30, 2017, our effective tax rate was 44.1% compared to 28.8% for the prior year period. Our effective tax rate was primarily impacted by the Tax Cuts and Jobs Act (“the Tax Act”). Our effective tax rate was favorably impacted by the adoption of ASU 2016-09, Accounting for Stock Compensation, as well as savings from implementation of tax planning initiatives and higher income from lower tax jurisdictions. During the second quarter of 2016, the effective tax rate was affected by a federal tax audit settlement, which reduced our income tax expense by approximately \$4.5 million which is included in the unrecognized tax benefits amount above.

On December 22, 2017, the U.S. government passed the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act is comprehensive tax legislation that implements complex changes to the U.S. tax code including, but not limited to, the reduction of the corporate tax rate from 35% to 21%, modification of accelerated depreciation, the repeal of the domestic manufacturing deduction and changes to the limitations of the deductibility of interest. Additionally, the Tax Act moves from a global tax regime to a modified territorial regime, which requires U.S. companies to pay a mandatory one-time transition tax on historical offshore earnings that have not been repatriated to the U.S. The transition tax is payable over eight years.

Due to the complexities of the Tax Act, On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”) that allows the company to record a provisional amount for any income tax effects of the Tax Act in accordance with ASC 740, to the extent that a reasonable estimate can be made. SAB 118 allows for a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts.

We have recorded provisional amounts for any items that could be reasonably estimated at this time. This includes the one-time transition tax that we have estimated to be \$140.0 million. Within our consolidated balance sheets, \$27.4 million is included in “Accrued taxes” and \$112.6 million is included in “Other liabilities”. The U.S. deferred tax assets and liabilities were revalued due to the lower enacted federal income tax rate, of 21%, that was effective January 1, 2018. The Company accrued a net deferred tax expense of \$3.0 million attributable to the revaluation. In the aggregate, for the quarter ended December 30, 2017, these Tax Act modifications resulted in a one-time tax expense of approximately \$143.0 million. Absent the effects of the transition tax and the revaluation of deferred tax assets and liabilities, our effective tax rate for the year ended December 30, 2017 would have been 26.7% as compared to our actual effective tax rate of 44.1%.

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

The Tax Act also includes provisions to tax global intangible low-taxed income (“GILTI”) and a base erosion and anti-abuse tax (“BEAT”) that imposes tax on certain foreign related-party payments. The Company is subject to the GILTI and BEAT provisions which are effective January 1, 2018. The Company is in the process of assessing the effects of these provisions for 2018.

The ultimate impacts of the Tax Act may differ from the estimate above, possibly materially, due to additional guidance from the U.S. Department of Treasury, updates or changes in the Company’s assumptions, revision of accounting standards for income taxes or related interpretations and future information that may become available. We currently anticipate finalizing and recording any resulting adjustments by the quarter ended September 29, 2018. If the information necessary to finalize and record the related tax impacts are available prior to the quarter ended September 29, 2018, we will book these impacts accordingly.

During the third quarter of 2015, we received a favorable response to a tax petition, which allowed us to conclude that it was more likely than not that certain unrecognized tax benefits, which had been previously reserved, would be realized. As a result, our provision for income taxes in 2015 included a \$6.3 million income tax benefit, which is included in the unrecognized tax benefits amount above.

Absent the effects of this income tax benefit in the third quarter of 2015, our effective tax rate for the year ended December 26, 2015 would have been 30.2% as compared to our actual effective tax rate of 28.8%. The remaining difference between our effective tax rate and the federal statutory tax rate for the period primarily relates to state and foreign income taxes and interest expense.

Provision has not been made for foreign taxes on undistributed earnings of foreign subsidiaries, because we are permanently reinvested. As of December 30, 2017, the cumulative amount of reinvested earnings was approximately \$1.4 billion. It is not practicable to determine the unrecognized deferred income tax liability related to investments in our foreign subsidiaries.

ASC Topic 740 prescribes the accounting for uncertainty in income taxes recognized in the financial statements in accordance with other provisions contained within this guidance. This topic prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by the taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate audit settlement. In the normal course of business, our tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities for uncertain tax positions taken in respect to certain tax matters.

The total amount of unrecognized tax benefits, which are included in “Other liabilities” within our consolidated balance sheets as of December 30, 2017 was approximately \$105.2 million, of which \$79.2 million would affect the effective tax rate if recognized. It is expected that the amount of unrecognized tax benefits will change in the next 12 months; however, we do not expect the change to have a material impact on our consolidated financial statements.

The total amounts of interest and penalties, which are classified as a component of the provision for income taxes and included in “Other liabilities”, were approximately \$14.2 million and \$0, respectively, as of December 30, 2017.

The tax years subject to examination by major tax jurisdictions include the years 2012 and forward by the U.S. Internal Revenue Service (“IRS”), as well as the years 2008 and forward for certain states and certain foreign jurisdictions. In December 2014, the IRS issued a Statutory Notice of Deficiency for 2009, 2010 and 2011. During the quarter ended March 28, 2015, we filed our petition to the U.S. Tax Court disputing the adjustments proposed by the IRS. During the quarter ended June 27, 2015, we were notified by the IRS that our protest was transferred to the Appellate Divisions (Appeals Section) of the IRS. During the quarter ended March 26, 2016, we filed our

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

protest with the Appellate Division. The opening appeals conference was held on June 8, 2016 and a proposed settlement was reached. On July 13, 2016, a joint status report was filed with the Tax Court indicating a basis for settlement had been reached on all of the issues in this case. On October 7, 2016 an executed decision document was signed by the Internal Revenue Service's Special Trial Attorney and submitted to the Tax Court finalizing the Appeals decision. Additionally, during the quarter ended December 31, 2016 we filed a Mutual Agreement Procedure request with the IRS for assistance from the U.S. Competent Authority for an open Transfer Pricing issue which resulted in a partial settlement during the quarter ended December 30, 2017. We do not expect this to have a material effect on our consolidated financial position, liquidity or the results of operations.

The following table provides a reconciliation of unrecognized tax benefits excluding the effects of deferred taxes, interest and penalties:

| | |
|---|---------|
| | Decem |
| | 30, |
| | 2017 |
| Balance, beginning of period | \$90,40 |
| Additions based on current year tax positions | 8,500 |
| Additions based on prior year tax positions | 6,100 |
| Reductions based on prior year tax positions | (800) |
| Reductions resulting from settlements with taxing authorities | (10,5 |
| Reductions resulting from lapse in statutes of limitations | (2,80 |
| Balance, end of period | \$90,90 |

Note 13 – Concentrations of Risk

Certain financial instruments potentially subject us to concentrations of credit risk. These financial instruments consist primarily of cash equivalents, trade receivables, long-term investments, notes receivable and derivative instruments. In all cases, our maximum exposure to loss from credit risk equals the gross fair value of the financial instruments. We continuously assess the need for reserves for such losses, which have been within our expectations. We do not require collateral or other security to support financial instruments subject to credit risk, except for long-term notes receivable.

We limit our credit risk with respect to our cash equivalents, short-term and long-term investments and derivative instruments, by monitoring the credit worthiness of the financial institutions who are the counter-parties to such financial instruments. As a risk management policy, we limit the amount of credit exposure by diversifying and

utilizing numerous investment grade counter-parties.

With respect to our trade receivables, our credit risk is somewhat limited due to a relatively large customer base and its dispersion across different types of health care professionals and geographic areas. No single customer accounted for more than 1.2% of our net sales in 2017 or 2016. With respect to our sources of supply, our top 10 health care distribution suppliers and our single largest supplier accounted for approximately 34% and 5%, respectively, of our aggregate purchases in 2017 and approximately 34% and 6%, respectively, of our aggregate purchases in 2016.

Our long-term notes receivable primarily represent strategic financing arrangements with certain industry affiliates and amounts owed to us from sales of certain businesses. Generally, these notes are secured by certain assets of the counter-party; however, in most cases our security is subordinate to other commercial financial institutions. While we have exposure to credit loss in the event of non-performance by these counter-parties, we conduct ongoing assessments of their financial and operational performance.

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

Note 14 –Derivatives and Hedging Activities

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

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

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

Note 15 -Segment and Geographic 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.

Our 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 other services.

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

| | Year Ended December 31, 2019 |
|---|------------------------------------|
| Operating Income: | |
| Health care distribution | \$7 |
| | |
| Technology and value-added services | 1 |
| | |
| Total | \$8 |
| Income before taxes and equity in earnings of affiliates: | |
| Health care distribution | \$6 |
| | |
| Technology and value-added services | 1 |
| | |
| Total | \$8 |
| Depreciation and Amortization: | |
| Health care distribution | \$1 |
| | |
| Technology and value-added services | 2 |
| | |
| Total | \$1 |
| Income Tax Expense: | |
| Health care distribution | \$3 |
| | |
| Technology and value-added services | 3 |
| | |
| Total | \$3 |
| Interest Income: | |
| Health care distribution | \$1 |
| | |
| Technology and value-added services | 2 |
| | |
| Total | \$1 |
| Interest Expense: | |
| Comprehensive Income | |

| | | |
|-------------------------------------|-------|-----|
| Health care distribution | ..... | \$5 |
| Technology and value-added services | ..... | 4 |
| Total | ..... | \$5 |

Purchases of Fixed Assets:

| | | |
|-------------------------------------|-------|-----|
| Health care distribution | ..... | \$7 |
| Technology and value-added services | ..... | 5 |
| Total | ..... | \$8 |

Total Assets:

| | | |
|-------------------------------------|-------|-----|
| Health care distribution | | \$7 |
| Technology and value-added services | | 4 |
| Total | | \$7 |

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

The following table presents information about our operations by geographic area as of and for the three years ended December 30, 2017. Net sales by geographic area are based on the respective locations of our subsidiaries. No country, except for the United States, generated net sales greater than 10% of consolidated net sales. There were no material amounts of sales or transfers among geographic areas and there were no material amounts of export sales.

| | |
|--------------------------|-----------|
| | 2017 |
| | Net sales |
| United States | \$7,9 |
| Other | 4,5 |
| Consolidated total | \$12 |

Note 16 – Employee Benefit Plans

Stock-based Compensation

Our accompanying consolidated statements of income reflect pre-tax share-based compensation expense of \$42.3 million (\$23.7 million after-tax), \$58.2 million (\$41.4 million after-tax) and \$44.6 million (\$31.5 million after-tax) for the years ended December 30, 2017, December 31, 2016 and December 26, 2015.

Our accompanying consolidated statements of cash flows present our stock-based compensation expense as an adjustment to reconcile net income to net cash provided by operating activities for all periods presented. In the accompanying consolidated statements of cash flows, we presented \$0.0 million, \$(0.5) million and \$2.2 million of benefits associated with tax deductions in excess of recognized compensation as a cash inflow from financing activities for the years ended December 30, 2017, December 31, 2016 and December 26, 2015.

Stock-based compensation represents the cost related to stock-based awards granted to employees and non-employee directors. We measure stock-based compensation at the grant date, based on the estimated fair value of the award, and

recognize the cost (net of estimated forfeitures) as compensation expense on a straight-line basis over the requisite service period. Our stock-based compensation expense is reflected in selling, general and administrative expenses in our consolidated statements of income.

Stock-based awards are provided to certain employees and non-employee directors under the terms of our 2013 Stock Incentive Plan, as amended, and our 2015 Non-Employee Director Stock Incentive Plan (together, the “Plans”). The Plans are administered by the Compensation Committee of the Board of Directors. Prior to March 2009, awards under the Plans principally included a combination of at-the-money stock options and restricted stock/units. Since March 2009, equity-based awards have been granted solely in the form of restricted stock/units, with the exception of providing stock options to employees pursuant to certain pre-existing contractual obligations. As of December 30, 2017, there were 62,458 shares authorized and 7,426 shares available to be granted under the 2013 Stock Incentive Plan and 1,800 shares authorized and 270 shares available to be granted under the 2015 Non-Employee Director Stock Incentive Plan.

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

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

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

The Plans provide for adjustments to the performance-based restricted stock/units targets for significant events, including, without limitation, acquisitions, divestitures, new business ventures, certain capital transactions (including share repurchases), restructuring costs, if any, changes in accounting principles or in applicable laws or regulations and certain foreign exchange fluctuations. Over the performance period, the number of shares of common stock that will ultimately vest and be issued and the related compensation expense is adjusted upward or downward based upon our estimation of achieving such performance targets. The ultimate number of shares delivered to recipients and the related compensation cost recognized as an expense will be based on our actual performance metrics as defined under the Plans.

We record deferred income tax assets for awards that will result in future deductions on our income tax returns based on the amount of compensation cost recognized and our statutory tax rate in the jurisdiction in which we will receive a deduction.

During the first quarter of 2017, we adopted the provisions of ASU 2016-09 which requires that all excess tax benefits and tax deficiencies resulting from the difference between the deduction for tax purposes and the stock-based compensation cost recognized for financial reporting purposes be included as a component of income tax expense as of January 1, 2017. Prior to the implementation of ASU 2016-09, excess tax benefits were recorded as a component of Additional paid-in capital and tax deficiencies were recognized either as an offset to accumulated excess tax benefits or in the income statement if there were no accumulated excess tax benefits.

Stock-based compensation grants for the three years ended December 30, 2017 primarily consisted of restricted stock/unit grants. Certain stock-based compensation granted may require us to settle in the form of a cash payment. During the year ended December 30, 2017, we recorded a liability of \$0.8 million relating to the grant date fair value of stock-based compensation to be settled in cash, as well as an expense of \$0.0 million relating to the change in the fair value of these grants. The weighted-average grant date fair value of stock-based awards granted before forfeitures

was \$85.43, \$83.90 and \$70.40 per share during the years ended December 30, 2017, December 31, 2016 and December 26, 2015.

Total unrecognized compensation cost related to non-vested awards as of December 30, 2017 was \$82.6 million, which is expected to be recognized over a weighted-average period of approximately 2.0 years.

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

A summary of the stock option activity under the Plans is presented below:

| |
|--|
| Outstanding at beginning of year |
| Granted |
| Exercised |
| Forfeited |
| Outstanding at end of year |
| Options exercisable at end of year |

During the years ended December 30, 2017, December 31, 2016 and December 26, 2015, we did not grant any stock options.

The following table represents the intrinsic values of:

| | As of December 30, 2017 | December 31, 2016 |
|---------------------------------|-------------------------------|----------------------|
| Stock options outstanding | \$6,256 | \$16,681 |
| Stock options exercisable | 6,256 | 16,681 |

The total cash received as a result of stock option exercises for the years ended December 30, 2017, December 31, 2016 and December 26, 2015 was approximately \$5.3 million, \$11.4 million and \$14.9 million. In connection with

these exercises, the tax benefits that we realized for the years ended December 30, 2017, December 31, 2016 and December 26, 2015 were \$0.0 million, \$23.4 million and \$20.8 million. We settle employee stock option exercises with newly issued common shares.

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

The total intrinsic value per share of restricted stock/units that vested was \$83.16, \$81.86 and \$71.60 during the years ended December 30, 2017, December 31, 2016 and December 26, 2015. The following table summarizes the status of our non-vested restricted stock/units for the year ended December 30, 2017:

| | |
|--|--|
| Outstanding at beginning of period | |
| Granted | |
| Vested | |
| Forfeited | |
| Outstanding at end of period | |

| | |
|--|--|
| Outstanding at beginning of period | |
| Granted | |
| Vested | |
| Forfeited | |
| Outstanding at end of period | |
| | |

401(k) Plans

We offer qualified 401(k) plans to substantially all our domestic full-time employees. As determined by our Board of Directors, matching contributions to these plans generally do not exceed 100% of the participants' contributions up to 7% of their base compensation, subject to applicable legal limits. Matching contributions consist of cash and were allocated entirely to the participants' investment elections on file, subject to a 20% allocation limit to the Henry Schein Stock Fund. Forfeitures attributable to participants whose employment terminates prior to becoming fully vested are used to reduce our matching contributions and offset administrative expenses of the 401(k) plans.

Assets of the 401(k) and other defined contribution plans are held in self-directed accounts enabling participants to choose from various investment fund options. Matching contributions and administrative expenses related to these plans charged to operations during the years ended December 30, 2017, December 31, 2016 and December 26, 2015 amounted to \$39.0 million, \$33.9 million and \$31.5 million.

Supplemental Executive Retirement Plan

We offer an unfunded, non-qualified supplemental executive retirement plan to eligible employees. This plan generally covers officers and certain highly-compensated employees after they have reached the maximum IRS allowed pre-tax 401(k) contribution limit. Our contributions to this plan are equal to the 401(k) employee-elected contribution percentage applied to base compensation for the portion of the year in which such employees are not eligible to make pre-tax contributions to the 401(k) plan. The amounts charged to operations during the years ended December 30, 2017, December 31, 2016 and December 26, 2015 amounted to \$0.6 million, \$0.3 million and \$1.5 million.

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

Deferred Compensation Plan

During 2011, we began to offer a deferred compensation plan to a select group of management or highly compensated employees of the Company and certain associated companies. This plan allows for the elective deferral of base salary, bonus and/or commission compensation by eligible employees. The amounts charged to operations during the years ended December 30, 2017, December 31, 2016 and December 26, 2015 were approximately \$5.0 million, \$1.7 million and \$0.1 million, respectively.

Note 17 – Commitments and Contingencies

Operating Leases

We lease facilities and equipment under non-cancelable operating leases expiring through 2033. We expect that in the normal course of business, leases will be renewed or replaced by other leases.

Future minimum annual rental payments under our non-cancelable operating leases as of December 30, 2017 were:

| | |
|--|--|
| 2018 | |
| 2019 | |
| 2020 | |
| 2021 | |
| 2022 | |
| Thereafter | |
| Total minimum operating lease payments | |

Total rental expense for the years ended December 30, 2017, December 31, 2016 and December 26, 2015 was \$84.8 million, \$79.6 million and \$76.0 million.

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

Capital Leases

We lease certain equipment under capital leases. Future minimum annual lease payments under our capital leases together with the present value of the minimum capital lease payments as of December 30, 2017 were:

| | |
|--|--|
| 2018 | |
| 2019 | |
| 2020 | |
| 2021 | |
| 2022 | |
| Thereafter | |
| Total minimum capital lease payments | |
| Less: Amount representing interest at 0.84% to 19.79% | |
| Total present value of minimum capital lease payments..... | |

Purchase Commitments

In our health care distribution business, we sometimes enter into long-term purchase commitments to ensure the availability of products for distribution. Future minimum annual payments for inventory purchase commitments as of December 30, 2017 were:

| | |
|---|--|
| 2018 | |
| 2019 | |
| 2020 | |
| 2021 | |
| 2022 | |
| Thereafter | |
| Total minimum inventory purchase commitment payments..... | |

Litigation

Beginning in January 2016, class action complaints were filed against Patterson Companies, Inc. (“Patterson”), Benco Dental Supply Co. (“Benco”) and Henry Schein, Inc. Each of these complaints allege, among other things, that defendants conspired to fix prices, allocate customers and foreclose competitors by boycotting manufacturers, state dental associations and others that deal with defendants’ competitors. Subject to certain exclusions, these classes seek to represent all persons who purchased dental supplies or equipment in the United States directly from any of the defendants or Burkhardt Dental Supply Co. (“Burkhardt”) since August 31, 2008. Each class action complaint asserts a single count under Section 1 of the Sherman Act, and seeks equitable relief, compensatory and treble damages, jointly and severally, and reasonable costs and expenses, including attorneys’ fees and expert fees. We intend to defend ourselves vigorously against these actions.

On August 31, 2012, Archer and White Sales, Inc. (“Archer”) filed a complaint against Henry Schein, Inc. as well as Danaher Corporation and its subsidiaries Instrumentarium Dental, Inc., Dental Equipment, LLC, Kavo Dental Technologies, LLC and Dental Imaging Technologies Corporation (collectively, the “Danaher Defendants”) in the United States District Court for the Eastern District of Texas, Civil Action No. 2:12-CV-00572-JRG, styled as an antitrust action under Section 1 of the Sherman Act, and the Texas Free Enterprise Antitrust Act. Archer alleges a conspiracy between Henry Schein, Inc., an unnamed company and the Danaher Defendants to terminate or limit Archer’s distribution rights. On October 1, 2012, Henry Schein filed a motion for an order: (i) compelling

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

Archer to arbitrate its claims against Henry Schein; (2) staying all proceedings pending arbitration; and (3) joining the Danaher Defendants' motion to arbitrate and stay. On May 28, 2013, the Magistrate Judge granted the motions to arbitrate and stayed proceedings pending arbitration. On June 10, 2013, Archer moved for reconsideration before the District Court judge. On December 7, 2016, the District Court Judge granted Archer's motion for reconsideration and lifted the stay. Defendants appealed the District Court's order. On December 21, 2017, the United States Court of Appeals for the Fifth Circuit affirmed the District Court's order denying the motions to compel arbitration. On February 12, 2018, defendants filed an Application for Stay of Proceedings in the District Court in the Supreme Court of the United States, seeking to stay proceedings in the District Court pending a decision on defendants' forthcoming petition for writ of certiorari.

On August 1, 2017, Archer filed an amended complaint, adding Patterson and Benco as defendants, and alleging that Henry Schein, Inc., Patterson, Benco and Burkhart conspired to fix prices and refused to compete with each other for sales of dental equipment to dental professionals and agreed to enlist their common suppliers, the Danaher Defendants, to join a price-fixing conspiracy and boycott by reducing the distribution territory of, and eventually terminating, their price-cutting competing distributor Archer. Archer seeks injunctive relief, and damages in an amount to be proved at trial, to be trebled with interest and costs, including attorneys' fees, jointly and severally.

On October 30, 2017, Archer filed a second amended complaint under seal, to add additional allegations that it believes support its claims. The named parties and causes of action are the same as the August 1, 2017 amended complaint. Trial is currently scheduled for May 2018. We intend to defend ourselves vigorously against this action.

On August 17, 2017, IQ Dental Supply, Inc. ("IQ Dental") filed a complaint in the United States District Court for the Eastern District of New York, entitled IQ Dental Supply, Inc. v. Henry Schein, Inc., Patterson Companies, Inc. and Benco Dental Supply Company, Case No. 2:17-cv-4834. Plaintiff alleges that it is a distributor of dental supplies and equipment, and sells dental products through an online dental distribution platform operated by SourceOne Dental ("SourceOne"). SourceOne had previously brought an antitrust lawsuit against the Company, Patterson and Benco which the Company settled in the second quarter of 2017 and which is described in the Company's prior filings with the SEC.

IQ Dental alleges, among other things, that defendants conspired to suppress competition from IQ Dental and SourceOne for the marketing, distribution and sale of dental supplies and equipment in the United States, and that defendants unlawfully agreed with one another to boycott dentists, manufacturers and state dental associations that

deal with, or considered dealing with, plaintiff and SourceOne. Plaintiff claims that this alleged conduct constitutes unreasonable restraint of trade in violation of Section 1 of the Sherman Act, New York's Donnelly Act and the New Jersey Antitrust Act, and also makes pendant state law claims for tortious interference with prospective business relations, civil conspiracy and aiding and abetting. Plaintiff seeks injunctive relief, compensatory, treble and punitive damages, jointly and severally, and reasonable costs and expenses, including attorneys' fees and expert fees. On December 21, 2017, the District Court granted the defendants' motion to dismiss. On January 19, 2018, IQ Dental appealed the District Court's order. We intend to vigorously defend ourselves against this action.

On February 12, 2018, the United States Federal Trade Commission ("FTC") filed a complaint against Benco Dental Supply Co., Henry Schein, Inc. and Patterson Companies, Inc. The FTC alleges, among other things, that defendants violated U.S. antitrust laws by conspiring, and entering into an agreement, to refuse to provide discounts to or otherwise serve buying groups representing dental practitioners. The FTC alleges that defendants conspired in violation of Section 5 of the FTC Act. The complaint seeks equitable relief only and does not seek monetary damages. We deny the allegation that we conspired to refuse to provide discounts to or otherwise serve dental buying groups and intend to defend ourselves vigorously against this action. The Company believes this matter will not have a material adverse effect on our financial condition or results of operations.

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

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 financial condition or results of operations.

As of December 30, 2017, we had accrued our best estimate of potential losses relating to claims that were probable to result in liability and for which we were able to reasonably estimate a loss. This accrued amount, as well as related expenses, was not material to our financial position, results of operations or cash flows. Our method for determining estimated losses considers currently available facts, presently enacted laws and regulations and other factors, including probable recoveries from third parties.

Employment, Consulting and Non-Compete Agreements

We have definite-lived employment, consulting and non-compete agreements that have varying base aggregate annual payments for the years 2018 through 2022 and thereafter of approximately \$18.7 million, \$4.5 million, \$1.5 million, \$1.3 million and \$0.1 million. We also have lifetime consulting agreements that provide for current compensation of \$0.5 million per year, increasing \$25 every fifth year with the next increase in 2022. In addition, some agreements have provisions for additional incentives and compensation.

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

Note 18 – Quarterly Information (Unaudited)

The following tables present certain quarterly financial data:

Net sales
Gross profit

Operating income
Net income

Amounts attributable to
Henry Schein, Inc.:
Net income (loss).....

Earnings (loss) per share attributable to
Henry Schein, Inc.:
Basic
Diluted

Net sales
Gross profit

Restructuring costs

Operating income

.....
Net income

Amounts attributable to
Henry Schein, Inc.:

Net income

Earnings per share attributable to
Henry Schein, Inc.:

Basic

Diluted

(1) See Note 10 - "Plans of Restructuring" for details of the restructuring costs incurred during the fiscal year of 2016.

(2) See Item 5 - "Purchases of Equity Securities by the Issuer" for details of the 2-for-1 split of our common stock, during the th

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

We experience fluctuations in quarterly financial results. As a result, we may fail to meet or exceed the expectations of securities analysts and investors, which could cause our stock price to decline.

Our business is subject to seasonal and other quarterly fluctuations. Revenues and profitability generally have been higher in the third and fourth quarters due to the timing of sales of seasonal products (including influenza vaccine, equipment and software products), purchasing patterns of office-based health care practitioners and year-end promotions. Revenues and profitability generally have been lower in the first quarter, primarily due to increased sales in the prior two quarters. We expect our historical seasonality of sales to continue in the foreseeable future. Quarterly results may also be materially adversely affected by a variety of other factors, including:

- timing and amount of sales and marketing expenditures;

- timing of pricing changes offered by our suppliers;

- timing of the introduction of new products and services by our suppliers;

- timing of the release of upgrades and enhancements to our technology-related products and services;

- changes in or availability of supplier contracts or rebate programs;

- supplier rebates based upon attaining certain growth goals;

- changes in the way suppliers introduce or deliver products to market;

- costs of developing new applications and services;
- our ability to correctly identify customer needs and preferences and predict future needs and preferences;
- uncertainties regarding potential significant breaches of data security or disruptions of our information technology systems;
- unexpected regulatory actions, or government regulation generally;
- exclusivity requirements with certain suppliers may prohibit us from distributing competitive products manufactured by other suppliers;
- loss of sales representatives;
- costs related to acquisitions and/or integrations of technologies or businesses;
- costs associated with our self-insured medical and dental insurance programs;
- general market and economic conditions, as well as those specific to the health care industry and related industries;
- our success in establishing or maintaining business relationships;
- unexpected difficulties in developing and manufacturing products;
- product demand and availability or recalls by manufacturers;

- exposure to product liability and other claims in the event that the use of the products we sell results in injury;
- increases in shipping costs or service issues with our third-party shippers;
- fluctuations in the value of foreign currencies;

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(in thousands, except per share data)

- restructuring costs;

- the adoption or repeal of legislation;

- changes in accounting principles; and

- litigation or regulatory judgements, expenses or settlements

Any change in one or more of these or other factors could cause our annual or quarterly financial results to fluctuate. If our financial results do not meet market expectations, our stock price may decline.

Note 19 -Supplemental Cash Flow Information

Cash paid for interest and income taxes was:

| | |
|--------------------|------|
| | Year |
| | Dec |
| | 30, |
| | 201 |
| Interest | \$49 |
| Income taxes | 22 |

There was approximately \$0.4 million, \$63.8 million and \$5.0 million of debt assumed as a part of the acquisitions for the years ended December 30, 2017, December 31, 2016 and December 26, 2015, respectively. Debt assumed during the year ended December 31, 2016 primarily relates to the acquisitions of Dental Cremer S.A. and Dental Speed Graph. Debt assumed during the year ended December 26, 2015 relates to the acquisitions of scil, Kruise and Dental Trey.

For the years ended December 30, 2017, December 31, 2016 and December 26, 2015, we had \$(1.5) million, \$(1.0) million and \$2.1 million of non-cash net unrealized gains (losses) related to foreign currency hedging activities, respectively. During the year ended December 30, 2017, as part of business acquisitions, we increased our ownerships in subsidiaries through non-cash transactions of \$17.6 million.

ITEM 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this annual report as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, our management, including our principal executive officer and principal financial officer, concluded that our disclosure controls and procedures were effective as of December 30, 2017 to ensure that all material information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to them as appropriate to allow timely decisions regarding required disclosure and that all such information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

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Changes in Internal Control over Financial Reporting

The combination of continued acquisition integrations and systems implementations undertaken during the quarter and carried over from prior quarters, when considered in the aggregate, represents a material change in our internal control over financial reporting.

During the quarter ended December 30, 2017, we completed the acquisition of a US dental business with approximate aggregate annual revenues of \$16 million. In addition, post-acquisition integration related activities continued for our global dental and animal health businesses acquired during prior quarters, representing aggregate annual revenues of approximately \$511 million. These acquisitions, the majority of which utilize separate information and financial accounting systems, have been included in our consolidated financial statements since their respective dates of acquisition.

Also, during the quarter ended December 30, 2017, we continued the phased implementation of a new equipment system for our U.S. dental business to centers representing approximate aggregate annual revenues of \$159 million. Additionally, we completed the implementation of a new ERP system at a dental business in Italy having approximate aggregate annual revenues of \$49 million. Finally, our U.S. medical business continued the phased implementation of a new sales commission application which now covers approximately \$84 million of annual sales commission expense.

All acquisition integrations and systems implementations involved necessary and appropriate change-management controls that are considered in our annual assessment of the design and operating effectiveness of our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control system is designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework (2013), updated and reissued by the Committee of Sponsoring Organizations, or the COSO Framework. Based on our evaluation under the COSO Framework, our management concluded that our internal control over financial reporting was effective at a

reasonable assurance level as of December 30, 2017.

The effectiveness of our internal control over financial reporting as of December 30, 2017 has been independently audited by BDO USA, LLP, an independent registered public accounting firm, and their attestation is included herein.

Limitations of the Effectiveness of Internal Control

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors

Henry Schein, Inc.

Melville, NY

Opinion on Internal Control over Financial Reporting

We have audited Henry Schein Inc.'s (the "Company's") internal control over financial reporting as of December 30, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 30, 2017 and December 31, 2016, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 30, 2017, and the related notes and schedule and our report dated February 21, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Report on Internal Control over Financial Reporting." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that

transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that

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controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP

New York, NY

February 21, 2018

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ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Information required by this item regarding our directors and executive officers and our corporate governance is hereby incorporated by reference to the Section entitled “Election of Directors,” with respect to directors, and the first paragraph of the Section entitled “Corporate Governance - Board of Directors Meetings and Committees - Audit Committee,” with respect to corporate governance, in each case in our definitive 2018 Proxy Statement to be filed pursuant to Regulation 14A and to the Section entitled “Executive Officers of the Registrant” in Part I of this report, with respect to executive officers.

There have been no changes to the procedures by which stockholders may recommend nominees to our Board of Directors since our last disclosure of such procedures, which appeared in our definitive 2017 Proxy Statement filed pursuant to Regulation 14A on April 10, 2017.

Information required by this item concerning compliance with Section 16(a) of the Securities Exchange Act of 1934 is hereby incorporated by reference to the Section entitled “Section 16(a) Beneficial Ownership Reporting Compliance” in our definitive 2018 Proxy Statement to be filed pursuant to Regulation 14A.

We have adopted a Code of Ethics that applies to our Chief Executive Officer, Chief Financial Officer, Vice President of Corporate Finance and Controller. We make available free of charge through our Internet website, www.henryschein.com, under the “About Henry Schein--Corporate Governance” caption, our Code of Ethics. We intend to disclose on our Web site any amendment to, or waiver of, a provision of the Code of Ethics.

ITEM 11. Executive Compensation

The information required by this item is hereby incorporated by reference to the Sections entitled “Compensation Discussion and Analysis,” “Compensation Committee Report” (which information shall be deemed furnished in this Annual Report on Form 10-K), “Executive and Director Compensation” and “Compensation Committee Interlocks and Insider Participation” in our definitive 2018 Proxy Statement to be filed pursuant to Regulation 14A.

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ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

We maintain several stock incentive plans for the benefit of certain officers, directors and employees. All active plans have been approved by our stockholders. Descriptions of these plans appear in the notes to our consolidated financial statements. The following table summarizes information relating to these plans as of December 30, 2017:

| | |
|------------------------------------|-----|
| Plan Category | Nu |
| Plans Approved by Stockholders | Co |
| | |
| Plans Not Approved by Stockholders | Sh |
| ..... | Iss |
| Total | Ex |
| ..... | Ou |
| | Op |
| | Rig |
| | 15 |
| | - |
| | 15 |

The other information required by this item is hereby incorporated by reference to the Section entitled “Security Ownership of Certain Beneficial Owners and Management” in our definitive 2018 Proxy Statement to be filed pursuant to Regulation 14A.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is hereby incorporated by reference to the Section entitled “Certain Relationships and Related Transactions” and “Corporate Governance – Board of Directors Meetings and Committees – Independent Directors” in our definitive 2018 Proxy Statement to be filed pursuant to Regulation 14A.

ITEM 14. Principal Accountant Fees and Services

The information required by this item is hereby incorporated by reference to the Section entitled “Independent Registered Public Accounting Firm Fees and Pre-Approval Policies and Procedures” in our definitive 2018 Proxy Statement to be filed pursuant to Regulation 14A.

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PART IV

ITEM 15. Exhibits, Financial Statement Schedules

(a) List of Documents Filed as a Part of This Report:

1. Financial Statements:

Our Consolidated Financial Statements filed as a part of this report are listed on the index on Page 77.

2. Financial Statement Schedules:

Schedule II – Valuation of Qualifying Accounts
No other schedules are required.

3. Index to Exhibits:

See exhibits listed under Item 15(b) below.

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(b) Exhibits

3.1 Amended and Restated Certificate of Incorporation of Henry Schein, Inc. dated November 2, 1995. (Incorporated by reference to Exhibit 3.1 to our Annual Report on Form 10-K for the fiscal year ended December 30, 2006 filed on February 28, 2007.)

3.2 Certificate of Amendment of Amended and Restated Certificate of Incorporation of Henry Schein, Inc. dated November 12, 1997. (Incorporated by reference to Exhibit 3.2 to our Annual Report on Form 10-K for the fiscal year ended December 30, 2006 filed on February 28, 2007.)

3.3 Certificate of Amendment of Amended and Restated Certificate of Incorporation of Henry Schein, Inc. dated June 16, 1998. (Incorporated by reference to Exhibit 3.3 to our Registration Statement on Form S-3, Reg. No. 333-59793 filed on July 24, 1998.)

3.4 Certificate of Amendment of Amended and Restated Certificate of Incorporation of Henry Schein, Inc. dated May 25, 2005. (Incorporated by reference to Exhibit 3.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended June 25, 2005 filed on August 4, 2005.)

3.5 Certificate of Amendment of Amended and Restated Certificate of Incorporation of Henry Schein, Inc. dated May 15, 2012. (Incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K filed on May 16, 2012.)

3.6 Amended and Restated By-laws of Henry Schein, Inc., as amended (Incorporated by reference to Exhibit 3.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended July 1, 2017 filed on August 8, 2017.)

4.1 Amended and Restated Master Note Purchase Agreement dated September 15, 2017, by and among us, Metropolitan Life Insurance Company, MetLife Investment Advisors Company, LLC and each MetLife affiliate which becomes party thereto. (Incorporated by reference to Exhibit 4.3 to our Current Report on Form 8-K filed on September 18, 2017.)

4.2 Amended and Restated Master Note Facility dated September 15, 2017, by and among us, NYL Investors LLC and each New York Life affiliate which becomes party thereto. (Incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed on September 18, 2017.)

4.3 Amended and Restated Private Shelf Agreement dated September 15, 2017, by and among us, PGIM, Inc. and each Prudential affiliate which becomes party thereto. (Incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on September 18, 2017.)

10.1 Henry Schein, Inc. 1994 Stock Incentive Plan, as amended and restated effective as of March 27, 2007. (Incorporated by reference to Appendix A to our definitive 2007 Proxy Statement on Schedule 14A filed on April 10, 2007.)**

10.2 Amendment Number One to the Henry Schein, Inc. 1994 Stock Incentive Plan, effective as of January 1, 2005. (Incorporated by reference to Exhibit 10.2 to our Annual Report on Form 10-K for the fiscal year ended December 27, 2008 filed on February 24, 2009.)**

10.3 Amendment Number Two to the Henry Schein, Inc. 1994 Stock Incentive Plan, effective as of May 28, 2009. (Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended June 27, 2009 filed on August 4, 2009.)**

10.4 Amendment Number Three to the Henry Schein, Inc. 1994 Stock Incentive Plan, effective as of February 23, 2010. (Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 27, 2010 filed on May 4, 2010.)**

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10.5 Amendment Number Four to the Henry Schein, Inc. 1994 Stock Incentive Plan, effective as of May 18, 2011. (Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the fiscal quarter ended June 25, 2011 filed on August 2, 2011.)**

10.6 Amendment Number Five to the Henry Schein, Inc. 1994 Stock Incentive Plan, effective as of May 18, 2011. (Incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the fiscal quarter ended June 25, 2011 filed on August 2, 2011.)**

10.7 Henry Schein, Inc. 2013 Stock Incentive Plan, as amended and restated effective as of May 14, 2013. (Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on May 16, 2013.)**

10.8 Form of Restricted Stock Agreement for time-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective as of May 14, 2013). (Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2014 filed on May 6, 2014.)**

10.9 Form of Restricted Stock Agreement for performance-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective as of May 14, 2013). (Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2014 filed on May 6, 2014.)**

10.10 Form of Restricted Stock Unit Agreement for time-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective as of May 14, 2013). (Incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2014 filed on May 6, 2014.)**

10.11 Form of Restricted Stock Unit Agreement for performance-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective as of May 14, 2013). (Incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2014 filed on May 6, 2014.)**

10.12 Form of 2015 Restricted Stock Agreement for time-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective as of May 14, 2013). (Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 28, 2015 filed on May 4, 2015.)**

10.13 Form of 2015 Restricted Stock Agreement for performance-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 28, 2015 filed on May 4, 2015.)**

10.14 Form of 2015 Restricted Stock Unit Agreement for time-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 28, 2015 filed on May 4, 2015.)**

10.15 Form of 2015 Restricted Stock Unit Agreement for performance-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 28, 2015 filed on May 4, 2015.)**

10.16 Form of 2016 Restricted Stock Agreement for time-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective as of May 14, 2013). (Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 26, 2016 filed on May 3, 2016.)**

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10.17 Form of 2016 Restricted Stock Agreement for performance-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective as of May 14, 2013). (Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 26, 2016 filed on May 3, 2016.)**

10.18 Form of 2016 Restricted Stock Unit Agreement for time-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective as of May 14, 2013). (Incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 26, 2016 filed on May 3, 2016.)**

10.19 Form of 2016 Restricted Stock Unit Agreement for performance-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective as of May 14, 2013). (Incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 26, 2016 filed on May 3, 2016.)**

10.20 Form of 2017 Restricted Stock Agreement for performance-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective as of May 14, 2013). (Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 2017 filed on May 9, 2017.)**

10.21 Form of 2017 Restricted Stock Unit Agreement for time-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective as of May 14, 2013). (Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 2017 filed on May 9, 2017.)**

10.22 Form of 2017 Restricted Stock Unit Agreement for performance-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective as of May 14, 2013). (Incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 2017 filed on May 9, 2017.)**

10.23 Henry Schein, Inc. 1996 Non-Employee Director Stock Incentive Plan, as amended by Amendment Number One, effective as of May 25, 2004. (Incorporated by reference to Exhibit C to our definitive 2004 Proxy Statement on Schedule 14A filed on April 27, 2004.)**

10.24 Amendment Number Two to the Henry Schein, Inc. 1996 Non-Employee Director Stock Incentive Plan, effective as of January 1, 2005. (Incorporated by reference to Exhibit 10.5 to our Annual Report on Form 10-K for the fiscal year ended December 27, 2008 filed on February 24, 2009.)**

10.25 Amendment Number Three to the Henry Schein, Inc. 1996 Non-Employee Director Stock Incentive Plan, effective as of May 10, 2010. (Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended June 26, 2010 filed on August 2, 2010.)**

10.26 Amendment Number Four to the Henry Schein, Inc. 1996 Non-Employee Director Stock Incentive Plan, effective as of February 27, 2014. (Incorporated by reference to Exhibit 10.6 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2014 filed on May 6, 2014.)**

10.27 Henry Schein, Inc. 2015 Non-Employee Director Stock Incentive Plan. (Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended June 27, 2015 filed on July 29, 2015.)**

10.28 Form of 2016 Restricted Stock Unit Agreement for time-based restricted stock awards pursuant to the Henry Schein, Inc. 2015 Non-Employee Director Stock Incentive Plan (as amended and restated effective as of June 22, 2015). (Incorporated by reference to Exhibit 10.5 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 26, 2016 filed on May 3, 2016.)**

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10.29 Henry Schein, Inc. Supplemental Executive Retirement Plan, amended and restated effective as of January 1, 2014. (Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended September 28, 2013 filed on November 5, 2013.)**

10.30 2001 Henry Schein, Inc. Section 162(m) Cash Bonus Plan effective as of June 6, 2001. (Incorporated by reference to Appendix B to our definitive 2001 Proxy Statement on Schedule 14A filed on April 30, 2001.)**

10.31 Amendment Number One to the 2001 Henry Schein, Inc. Section 162(m) Cash Bonus Plan, effective as of May 24, 2005. (Incorporated by reference to Exhibit B to our definitive 2005 Proxy Statement on Schedule 14A, filed on April 22, 2005.)**

10.32 Amendment Number Two to the Henry Schein, Inc. Section 162(m) Cash Bonus Plan, effective as of January 1, 2007. (Incorporated by reference to Exhibit 10.8 to our Annual Report on Form 10-K for the fiscal year ended December 27, 2008 filed on February 24, 2009.)**

10.33 Amendment Number Three to the Henry Schein, Inc. Section 162(m) Cash Bonus Plan effective as of December 31, 2009. (Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the fiscal quarter ended June 27, 2009 filed on August 4, 2009.)**

10.34 Amendment Number Four to the Henry Schein, Inc. Section 162(m) Cash Bonus Plan, effective as of May 14, 2013. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on May 16, 2013.)**

10.35 Amendment Number Five to the Henry Schein, Inc. Section 162(m) Cash Bonus Plan, dated May 31, 2017. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on June 1, 2017.)**

10.36 Henry Schein, Inc. 2004 Employee Stock Purchase Plan, effective as of May 25, 2004. (Incorporated by reference to Exhibit D to our definitive 2004 Proxy Statement on Schedule 14A, filed on April 27, 2004.)**

10.37 Henry Schein, Inc. Non-Employee Director Deferred Compensation Plan, amended and restated effective as of January 1, 2005. (Incorporated by reference to Exhibit 10.11 to our Annual Report on Form 10-K for the fiscal year ended December 27, 2008 filed on February 24, 2009.)**

10.38 Henry Schein, Inc. Deferred Compensation Plan. (Incorporated by reference to Exhibit 10.23 to our Annual Report on Form 10-K for the fiscal year ended December 25, 2010 filed on February 22, 2011.)**

10.39 Amendment to the Henry Schein, Inc. Deferred Compensation Plan. (Incorporated by reference to Exhibit 10.26 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 filed on February 15, 2012.)**

10.40 Amendment Number Two to the Henry Schein, Inc. Deferred Compensation Plan. (Incorporated by reference to Exhibit 10.20 to our Annual Report on Form 10-K for the fiscal year ended December 28, 2013 filed on February 11, 2014.)**

10.41 Amendment Number Three to the Henry Schein, Inc. Deferred Compensation Plan. (Incorporated by reference to Exhibit 10.21 to our Annual Report on Form 10-K for the fiscal year ended December 28, 2013 filed on February 11, 2014.)**

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10.42 Amendment Number Four to the Henry Schein, Inc. Deferred Compensation Plan.(Incorporated by reference to Exhibit 10.46 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed on February 21, 2017.)**

10.43 Henry Schein Management Team Performance Incentive Plan and Plan Summary, effective as of January 1, 2014. (Incorporated by reference to Exhibit 10.7 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2014 filed on May 6, 2014.)**

10.44 Amended and Restated Employment Agreement dated as of December 31, 2016, by and between us and Stanley M. Bergman. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on April 7, 2016.)**

10.45 Form of Performance-Based RSU Award Agreement for Stanley M. Bergman pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated as of May 14, 2013). (Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on April 7, 2016.)**

10.46 Form of Time-Based RSU Award Agreement for Stanley M. Bergman pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated as of May 14, 2013). (Incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed on April 7, 2016.)**

10.47 Employment Agreement dated as of April 5, 2016, by and between us and Karen Prange.(Incorporated by reference to Exhibit 10.52 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed on February 21, 2017.)**

10.48 Confidentiality and Non-Solicitation/Non-Compete Agreement dated as of April 5, 2016, by and between us and Karen Prange.(Incorporated by reference to Exhibit 10.53 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed on February 21, 2017.)**

10.49 Form of Amended and Restated Change in Control Agreement dated December 12, 2008 between us and certain executive officers who are a party thereto (Gerald Benjamin, James Breslawski, Michael S. Ettinger, Mark Mlotek and Steven Paladino, respectively). (Incorporated by reference to Exhibit 10.15 to our Annual Report on Form 10-K for the fiscal year ended December 27, 2008 filed on February 24, 2009.)**

10.50 Form of Amendment to Amended and Restated Change in Control Agreement effective January 1, 2012 between us and certain executive officers who are a party thereto (Gerald Benjamin, James Breslawski, Michael S. Ettinger, Mark Mlotek and Steven Paladino, respectively). (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on January 20, 2012.)**

10.51 Change in Control Agreement dated May 17, 2016 between us and Karen Prange. (Incorporated by reference to Exhibit 10.56 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed on February 21, 2017.)**

10.52 Credit Agreement, dated as of April 18, 2017, among the Company, the several lenders parties thereto, JPMorgan Chase Bank, N.A., as administrative agent, joint lead arranger and joint bookrunner, U.S. Bank National Association, as syndication agent, joint lead arranger and joint bookrunner, together with the exhibits and schedules thereto. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on April 19, 2017.)

10.53 Omnibus Agreement, dated November 29, 2009, by and among us, National Logistics Services, LLC, Winslow Acquisition Company, Butler Animal Health Holding Company LLC, Butler Animal Health Supply, LLC, Oak Hill Capital Partners II, L.P., Oak Hill Capital Management Partners II, L.P., W.A. Butler Company, Burns Veterinary Supply, Inc. and certain other persons party thereto. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on November 30, 2009.)

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10.54 Amendment No. 1 to the Omnibus Agreement, dated December 31, 2009, by and between us and Butler Animal Health Holding Company LLC. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on January 4, 2010.)

10.55 Put Rights Agreement, dated December 31, 2009, by and among us, Burns Veterinary Supply, Inc. and Butler Animal Health Holding Company, LLC. (Incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed on January 4, 2010.)

10.56 First Amendment dated December 1, 2010 to Put Rights Agreement among us, Burns Veterinary Supply, Inc. and Butler Animal Health Holding Company, LLC. (Incorporated by reference to Exhibit 10.45 to our Annual Report on Form 10-K for the fiscal year ended December 25, 2010 filed on February 22, 2011.)

10.57 Receivables Purchase Agreement, dated as of April 17, 2013, by and among us, as servicer, HSFR, Inc., as seller, The Bank of Tokyo-Mitsubishi UFJ, Ltd., as agent and the various purchaser groups from time to time party thereto. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on April 19, 2013.)

10.58 Amendment No. 1 dated as of September 22, 2014 to the Receivables Purchase Agreement, dated as of April 17, 2013, by and among us, as servicer, HSFR, Inc., as seller, The Bank of Tokyo-Mitsubishi UFJ, LTD., New York Branch, as agent and the various purchaser groups from time to time party thereto, as amended. (Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on September 26, 2014.)

10.59 Amendment No. 2 to Receivables Purchase Agreement, dated as of April 17, 2015, by and among us, as performance guarantor, HSFR, Inc., as seller, The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as agent and the various purchaser groups party thereto. (Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended June 25, 2016 filed on August 4, 2016.)

10.60 Amendment No. 3 to Receivables Purchase Agreement, dated as of June 1, 2016, by and among us, as performance guarantor, HSFR, Inc., as seller, The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as agent and the various purchaser groups party thereto. (Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the fiscal quarter ended June 25, 2016 filed on August 4, 2016.)

10.61 Amendment No. 4 to Receivables Purchase Agreement, dated as of June 1, 2016, by and among us, as performance guarantor, HSFR, Inc., as seller, The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as agent and the various purchaser groups party thereto. (Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2017 filed on November 6, 2017.)

10.62 Receivables Sale Agreement, dated as of April 17, 2013, by and among us, certain of our wholly-owned subsidiaries and HSFR, Inc., as buyer. (Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on April 19, 2013.)

10.63 Omnibus Amendment No. 1, dated July 22, 2013, to Receivables Purchase Agreement dated as of April 17, 2013, by and among us, as servicer, HSFR, Inc., as seller, The Bank of Tokyo-Mitsubishi UFJ, Ltd., as agent, and the various purchaser groups from time to time party thereto and Receivables Sales Agreement, dated as of April 17, 2013, by and among us, certain of our wholly-owned subsidiaries and HSFR, Inc., as buyer. (Incorporated by reference to Exhibit 10.5 to our Quarterly Report on Form 10-Q for the fiscal quarter ended June 29, 2013 filed on August 6, 2013.)

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10.64 Omnibus Amendment No. 2, dated April 21, 2014, to Receivables Purchase Agreement dated as of April 17, 2013, as amended, by and among us, as servicer, HSFR, Inc., as seller, The Bank of Tokyo-Mitsubishi UFJ, Ltd., as agent, and the various purchaser groups from time to time party thereto and Receivables Sales Agreement, dated as of April 17, 2013, by and among us, certain of our wholly-owned subsidiaries and HSFR, Inc., as buyer. (Incorporated by reference to Exhibit 10.8 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2014 filed on May 6, 2014.)

10.65 Form of Indemnification Agreement between us and certain directors and executive officers who are a party thereto (Barry J. Alperin, Lawrence S. Bacow, Ph.D., Paul Brons, Joseph L. Herring, Donald J. Kabat, Kurt P. Kuehn, Philip A. Laskawy, Carol Raphael, E. Dianne Rekow, DDS, Ph.D., Bradley T. Sheares, Ph.D., Gerald A. Benjamin, Stanley M. Bergman, James P. Breslawski, Michael S. Ettinger, David McKinley, Mark E. Mlotek, Steven Paladino, Karen Prange and Walter Siegel, respectively). (Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended September 26, 2015 filed on November 4, 2015.)**

21.1 List of our Subsidiaries.+

23.1 Consent of BDO USA, LLP.+

31.1 Certification of our Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+

31.2 Certification of our Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+

32.1 Certification of our Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.+

101.INS XBRL Instance Document+

101.SCH XBRL Taxonomy Extension Schema Document+

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document+

101.DEF XBRL Taxonomy Extension Definition Linkbase Document+

101.LAB XBRL Taxonomy Extension Label Linkbase Document+

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document+

+ Filed herewith.

** Indicates management contract or compensatory plan or agreement.

ITEM 16. Form 10-K Summary

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Henry Schein, Inc.

By: /s/ STANLEY M. BERGMAN
Stanley M. Bergman
Chairman and Chief Executive Officer
February 21, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature | Capacity | Date |
|--|---|-------------------|
| /s/ STANLEY M. BERGMAN Stanley M. Bergman | Chairman, Chief Executive Officer and Director (principal executive officer) | February 21, 2018 |
| /s/ STEVEN PALADINO Steven Paladino | Executive Vice President, Chief Financial Officer and Director (principal financial and accounting officer) | February 21, 2018 |
| /s/ JAMES P. BRESLAWSKI James P. Breslawski | Director | February 21, 2018 |
| /s/ GERALD A. BENJAMIN Gerald A. Benjamin | Director | February 21, 2018 |
| /s/ MARK E. MLOTEK Mark E. Mlotek | Director | February 21, 2018 |
| /s/ BARRY J. ALPERIN Barry J. Alperin | Director | February 21, 2018 |
| /s/ LAWRENCE S. BACOW, PH. D. Lawrence S. Bacow, Ph. D. | Director | February 21, 2018 |

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| | | |
|--|----------|-------------------|
| /s/ PAUL BRONS Paul Brons | Director | February 21, 2018 |
| /s/ JOSEPH L. HERRING Joseph L. Herring | Director | February 21, 2018 |
| /s/ DONALD J. KABAT Donald J. Kabat | Director | February 21, 2018 |
| /s/ KURT P. KUEHN Kurt P. Kuehn | Director | February 21, 2018 |
| /s/ PHILIP A. LASKAWY Philip A. Laskawy | Director | February 21, 2018 |
| /s/ CAROL RAPHAEL Carol Raphael | Director | February 21, 2018 |
| /s/ E. DIANNE REKOW E. Dianne Rekow, DDS, Ph.D. | Director | February 21, 2018 |
| /s/ BRADLEY T. SHEARES, PH. D. Bradley T. Sheares, Ph. D. | Director | February 21, 2018 |

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Schedule II
Valuation and Qualifying Accounts
(in thousands)

| Description | Balance at beginning of period | Change | Balance at end of period |
|--|--------------------------------|---------|--------------------------|
| Year ended December 30, 2017: | | | |
| Allowance for doubtful accounts, sales returns and other | \$90,329 | \$1,000 | \$91,329 |
| Year ended December 31, 2016: | | | |
| Allowance for doubtful accounts, sales returns and other | \$77,008 | \$1,000 | \$78,008 |
| Year ended December 26, 2015: | | | |
| Allowance for doubtful accounts, sales returns and other | \$80,671 | \$1,000 | \$81,671 |

(1) Represents amounts charged to bad debt expense.

(2) Amounts charged to net sales primarily relate to increases in allowances for sales returns.

(3) Deductions primarily consist of fully reserved accounts receivable that have been written off.

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