



Edgar Filing: HENRY SCHEIN INC - Form 10-K

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer:  Accelerated filer:  Non-accelerated filer:  
 Smaller reporting company:   
(Do not check if a smaller reporting company)

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 June 27, 2015, was approximately \$12,167,497,000.

As of February 5, 2016, there were 81,942,080 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 26, 2015) are incorporated by reference in Part III hereof.

---

## TABLE OF CONTENTS

		Page Number
<u>PART I.</u>		
<u>ITEM 1.</u>	<u>Business</u>	3
<u>ITEM 1A.</u>	<u>Risk Factors</u>	18
<u>ITEM 1B.</u>	<u>Unresolved Staff Comments</u>	30
<u>ITEM 2.</u>	<u>Properties</u>	30
<u>ITEM 3.</u>	<u>Legal Proceedings</u>	31
<u>ITEM 4.</u>	<u>Mine Safety Disclosures</u>	31
<u>PART II</u>		
<u>ITEM 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	32
<u>ITEM 6.</u>	<u>Selected Financial Data</u>	35
<u>ITEM 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	37
<u>ITEM 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	62
<u>ITEM 8.</u>	<u>Financial Statements and Supplementary Data</u>	63
<u>ITEM 9.</u>	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	108
<u>ITEM 9A.</u>	<u>Controls and Procedures</u>	108
<u>ITEM 9B.</u>	<u>Other Information</u>	111
<u>PART III</u>		
<u>ITEM 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	111
<u>ITEM 11.</u>	<u>Executive Compensation</u>	111
<u>ITEM 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	112
	<u>Certain Relationships and Related Transactions, and Director</u>	
<u>ITEM 13.</u>	<u>Independence</u>	112
<u>ITEM 14.</u>	<u>Principal Accountant Fees and Services</u>	112
<u>PART IV</u>		
<u>ITEM 15.</u>	<u>Exhibits, Financial Statement Schedules</u>	113
	<u>Signatures</u>	114
	<u>Exhibit Index</u>	117

Table of Contents

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 83 years of experience distributing health care products.

We are headquartered in Melville, New York, employ nearly 19,000 people (of which more than 8,500 are based outside the United States) and have operations or affiliates in 33 countries, including the United States, Australia, Austria, Belgium, Brazil, Canada, Chile, China, the Czech Republic, Denmark, France, Germany, Hong Kong SAR, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Malaysia, the Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Slovakia, South Africa, Spain, Sweden, Switzerland, Thailand 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 110,000 branded products and Henry Schein private brand products in stock, as well as more than 150,000 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 four million square feet of space in 61 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.

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 2015 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.

## Table of Contents

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 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, Billericay 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, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Malaysia, the Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Slovakia, South Africa, Spain, Sweden, Switzerland, Thailand and the United Kingdom.

## Table of Contents

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 83 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 approximately 3,725 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 2015, we distributed approximately 34.0 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 1,850 inbound and outbound telesales representatives, who facilitate order processing and generate new sales through direct and frequent contact with customers.
- 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 110,000 Stock Keeping Units, or SKUs, to our customers. Of the SKUs offered, approximately 52,000 are offered to our dental customers, approximately 13,000 to our animal health customers and approximately 53,000 to our medical customers. We offer over 150,000 additional SKUs to our customers in the form of special order items.
- 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. As of December 26, 2015, we had an active user base of more than 90,000 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™, Sunpoint™, Triple Crown™, Vetech Advantage™, VisionVPMTM and Robovet® for animal health practices; and MicroMD® for physician practices.

- Repair services. We have 199 equipment sales and service centers worldwide that provide a variety of repair, installation and technical services for our health care customers. Our technicians provide installation and repair services for: dental handpieces; dental, animal health and medical small equipment; table top sterilizers; and large dental equipment.

Table of Contents

- 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 165,000 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 2015, our top 10 health care distribution suppliers and our single largest supplier accounted for approximately 34% and 7%, 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.

Table of Contents

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:

	2015	2014	2013
<b>Health care distribution:</b>			
Dental products (1)	49.6 %	51.9 %	52.3 %
Animal health products (2)	27.5	27.9	27.2
Medical products (3)	19.5	16.8	17.2