

OWENS & MINOR INC/VA/  
Form 10-Q  
November 05, 2018  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

---

FORM 10-Q

---

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-9810

---

Owens & Minor, Inc.  
(Exact name of Registrant as specified in its charter)

---

Virginia 54-1701843  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

9120 Lockwood Boulevard, 23116  
Mechanicsville, Virginia  
(Address of principal executive offices) (Zip Code)

Post Office Box 27626, 23261-7626  
Richmond, Virginia  
(Mailing address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code (804) 723-7000

---

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 (§232.405 of this chapter) 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "larger accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.  
Large accelerated filer  Accelerated filer

Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-Q

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 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 number of shares of Owens & Minor, Inc.'s common stock outstanding as of October 29, 2018, was 62,268,831 shares.

---

Table of Contents

Owens & Minor, Inc. and Subsidiaries  
Index

<u>Part I. Financial Information</u>	Page
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Consolidated Statements of Income (Loss)—Three and Nine Months Ended September 30, 2018 and 2017</u>	<u>3</u>
<u>Consolidated Statements of Comprehensive Income (Loss)—Three and Nine Months Ended September 30, 2018 and 2017</u>	<u>4</u>
<u>Consolidated Balance Sheets—September 30, 2018 and December 31, 2017</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows—Nine Months Ended September 30, 2018 and 2017</u>	<u>6</u>
<u>Consolidated Statements of Changes in Equity—Nine Months Ended September 30, 2018 and 2017</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>38</u>
<u>Item 4. Controls and Procedures</u>	<u>38</u>
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	<u>38</u>
<u>Item 1A. Risk Factors</u>	<u>38</u>
<u>Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities</u>	<u>47</u>
<u>Item 6. Exhibits</u>	<u>48</u>

Table of Contents

## Part I. Financial Information

## Item 1. Financial Statements

## Owens &amp; Minor, Inc. and Subsidiaries

## Consolidated Statements of Income (Loss)

(unaudited)

(in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net revenue	\$2,464,877	\$2,333,961	\$7,295,727	\$6,928,441
Cost of goods sold	2,112,303	2,032,019	6,293,474	6,071,787
Gross margin	352,574	301,942	1,002,253	856,654
Distribution, selling, and administrative expenses	325,012	261,045	918,147	735,353
Goodwill and intangible asset impairment charges	—	—	165,447	—
Acquisition-related and exit and realignment charges	7,727	9,299	47,416	21,134
Other operating (income) expense, net	(1,522)	) 1,927	(2,281)	) 2,143
Operating income (loss)	21,357	29,671	(126,476)	) 98,024
Interest expense, net	23,826	8,737	52,651	22,218
Income (loss) before income taxes	(2,469)	) 20,934	(179,127)	) 75,806
Income tax provision (benefit)	(1,904)	) 10,063	(3,936)	) 26,010
Net income (loss)	\$(565)	) \$10,871	\$(175,191)	) \$49,796
Net income (loss) per common share: basic and diluted	\$(0.01)	) \$0.18	\$(2.92)	) \$0.82
Cash dividends per common share	\$0.26	\$0.2575	\$0.78	\$0.7725

See accompanying notes to consolidated financial statements.

3

Owens & Minor, Inc. and Subsidiaries  
 Consolidated Statements of Comprehensive Income (Loss)  
 (unaudited)

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	\$(565 )	\$10,871	\$(175,191)	\$49,796
Other comprehensive income (loss), net of tax:				
Currency translation adjustments (net of income tax of \$0 in 2018 and 2017)	350	12,254	(11,407 )	40,151
Change in unrecognized net periodic pension costs (net of income tax of \$161 and \$449 in 2018 and \$220 and \$665 in 2017)	362	236	1,116	702
Net unrealized gain (loss) on derivative instruments and other (net of income tax of \$103 and \$30 in 2018 and \$0 in 2017)	2,320	94	2,204	288
Total other comprehensive income (loss), net of tax	3,032	12,584	(8,087 )	41,141
Comprehensive income (loss)	\$2,467	\$23,455	\$(183,278)	\$90,937

See accompanying notes to consolidated financial statements.

4

---

Owens & Minor, Inc. and Subsidiaries  
 Consolidated Balance Sheets  
 (unaudited)

(in thousands, except per share data)	September 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	\$ 124,890	\$ 104,522
Accounts receivable, net of allowances of \$19,558 and \$16,280	870,187	758,936
Merchandise inventories	1,203,838	990,193
Other current assets	293,993	328,254
Total current assets	2,492,908	2,181,905
Property and equipment, net of accumulated depreciation of \$259,730 and \$239,581	343,710	206,490
Goodwill, net	761,173	713,811
Intangible assets, net	332,172	184,468
Other assets, net	102,318	89,619
Total assets	\$4,032,281	\$ 3,376,293
Liabilities and equity		
Current liabilities		
Accounts payable	\$1,107,541	\$ 947,572
Accrued payroll and related liabilities	47,404	30,416
Other current liabilities	301,800	331,745
Total current liabilities	1,456,745	1,309,733
Long-term debt, excluding current portion	1,640,455	900,744
Deferred income taxes	66,445	74,247
Other liabilities	76,223	76,090
Total liabilities	3,239,868	2,360,814
Commitments and contingencies		
Equity		
Common stock, par value \$2 per share; authorized - 200,000 shares; issued and outstanding - 62,269 shares and 61,476 shares	124,538	122,952
Paid-in capital	233,920	226,937
Retained earnings	467,126	690,674
Accumulated other comprehensive loss	(33,171)	(25,084)
Total equity	792,413	1,015,479
Total liabilities and equity	\$4,032,281	\$ 3,376,293

See accompanying notes to consolidated financial statements.

Owens & Minor, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
(unaudited)

(in thousands)	Nine Months Ended September 30,	
	2018	2017
Operating activities:		
Net income (loss)	\$(175,191)	\$49,796
Adjustments to reconcile net income (loss) to cash provided by (used for) operating activities:		
Depreciation and amortization	73,596	41,060
Share-based compensation expense	10,499	8,592
Goodwill and intangible asset impairment charges	165,447	—
Provision for losses on accounts receivable	5,757	1,158
Deferred income tax (benefit) expense	(6,754)	(4,585)
Changes in operating assets and liabilities:		
Accounts receivable	(51,603)	(79,114)
Merchandise inventories	21,244	(56,134)
Accounts payable	88,198	79,787
Net change in other assets and liabilities	(11,522)	(40,634)
Other, net	2,838	5,719
Cash provided by operating activities	122,509	5,645
Investing activities:		
Acquisitions, net of cash acquired	(751,834)	(366,569)
Additions to property and equipment	(32,489)	(24,963)
Additions to computer software and intangible assets	(14,816)	(12,826)
Proceeds from sale of property and equipment	258	780
Cash used for investing activities	(798,881)	(403,578)
Financing activities:		
Proceeds from issuance of debt	695,750	250,000
Financing costs paid	(28,512)	(1,798)
Repayments of debt	(9,375)	—
Proceeds from revolving credit facility	74,762	117,200
Cash dividends paid	(32,151)	(47,316)
Repurchases of common stock	—	(5,000)
Other, net	(5,308)	(7,363)
Cash provided by financing activities	695,166	305,723
Effect of exchange rate changes on cash and cash equivalents	1,574	5,137
Net increase (decrease) in cash and cash equivalents	20,368	(87,073)
Cash and cash equivalents at beginning of period	104,522	185,488
Cash and cash equivalents at end of period	\$124,890	\$98,415
Supplemental disclosure of cash flow information:		
Income taxes paid, net	\$26,570	\$26,917
Interest paid	\$45,313	\$19,951

See accompanying notes to consolidated financial statements.

Owens & Minor, Inc. and Subsidiaries  
 Consolidated Statements of Changes in Equity  
 (unaudited)

(in thousands, except per share data)	Common Shares Outstanding	Common Stock (\$ 2 par value )	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance December 31, 2016	61,031	\$ 122,062	\$ 219,955	\$ 685,504	\$ (67,483 )	\$ 960,038
Net income (loss)				49,796		49,796
Other comprehensive income (loss)					41,141	41,141
Dividends declared (\$0.7725 per share)				(47,169 )		(47,169 )
Shares repurchased and retired	(155 )	(310 )		(4,687 )		(4,997 )
Share-based compensation expense, exercises and other	373	747	4,228			4,975
Balance September 30, 2017	61,249	\$ 122,499	\$ 224,183	\$ 683,444	\$ (26,342 )	\$ 1,003,784
Balance December 31, 2017	61,476	\$ 122,952	\$ 226,937	\$ 690,674	\$ (25,084 )	\$ 1,015,479
Net income (loss)				(175,191 )		(175,191 )
Other comprehensive income (loss)					(8,087 )	(8,087 )
Dividends declared (\$0.78 per share)				(48,357 )		(48,357 )
Share-based compensation expense, exercises and other	793	1,586	6,983			8,569
Balance September 30, 2018	62,269	\$ 124,538	\$ 233,920	\$ 467,126	\$ (33,171 )	\$ 792,413

See accompanying notes to consolidated financial statements.



Owens & Minor, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(unaudited)

(in thousands, unless otherwise indicated)

Note 1—Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Owens & Minor, Inc. and the subsidiaries it controls (we, us, or our) and contain all adjustments (which are comprised only of normal recurring accruals and use of estimates) necessary to conform with U.S. generally accepted accounting principles (GAAP). All significant intercompany accounts and transactions have been eliminated. The results of operations for interim periods are not necessarily indicative of the results expected for the full year.

During the first quarter, we made certain changes to the leadership team, organizational structure, budgeting and financial reporting processes which resulted in changes to our segment reporting. These changes align our operations into two distinct business units: Global Solutions and Global Products. Global Solutions (previously Domestic and International) is our U.S. and European distribution, logistics and value-added services business. Global Products (previously Proprietary Products) provides product-related solutions, including surgical and procedural kitting and sourcing. The Halyard Surgical & Infection Prevention business (Halyard S&IP or Halyard), acquired April 30, 2018, is included in the Global Products segment. Beginning with the quarter ended March 31, 2018, we reported financial results using this two segment structure and have recast prior year segment results on the same basis.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires us to make assumptions and estimates that affect reported amounts and related disclosures. Actual results may differ from these estimates.

Revenue Recognition

On January 1, 2018, we adopted ASC 606 Revenue from Contracts with Customers, which establishes principles for recognizing revenue and reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. We applied the guidance using the modified retrospective transition method. The adoption of this guidance had no impact on the amount and timing of revenue recognized, therefore, no adjustments were recorded to our consolidated financial statements upon adoption.

Our revenue is primarily generated from sales contracts with customers. Under most of our distribution and product sales arrangements, our performance obligations are limited to delivery of products to a customer upon receipt of a purchase order. For these arrangements, we recognize revenue at the point in time when shipment is completed, as control passes to the customer upon product receipt.

Revenue for activity-based fees and other services is recognized over time as activities are performed. Depending on the specific contractual provisions and nature of the performance obligation, revenue from services may be recognized on a straight-line basis over the term of the service, on a proportional performance model, based on level of effort, or when final deliverables have been provided.

Our contracts sometimes allow for forms of variable consideration including rebates, discounts and performance guarantees. In these cases, we estimate the amount of consideration to which we will be entitled in exchange for transferring the product or service to the customer. Rebates and customer discounts are estimated based on contractual terms or historical experience and we maintain a liability for rebates or discounts that have been earned but are unpaid. The amount accrued for rebates and discounts due to customers was \$41.7 million at September 30, 2018 and \$13.0 million at December 31, 2017.

Additionally, we generate fees from arrangements that include performance targets related to cost-saving initiatives for customers that result from our supply-chain management services. Achievement against performance targets, measured in accordance with contractual terms, may result in additional fees paid to us or, if performance targets are not achieved, we may be obligated to refund or reduce a portion of our fees or to provide credits toward future purchases by the customer. For these arrangements, contingent revenue is deferred and recognized as the performance target is achieved and the applicable contingency is released. When we determine that a loss is probable under a

contract, the estimated loss is accrued. The amount deferred under these arrangements is not material.

8

---

Table of Contents

For our direct to patient sales, revenues are recorded based upon the estimated amounts due from patients and third-party payors. Third-party payors include federal and state agencies (under Medicare and Medicaid programs), managed care health plans and commercial insurance companies. Estimates of contractual allowances are based upon historical collection rates for the related payor agreements. The estimated reimbursement amounts are made on a payor-specific basis and are recorded based on the best information available regarding management's interpretation of the applicable laws, regulations and reimbursement terms.

In most cases, we record revenue gross, as we are the primary obligor in the arrangement and we obtain control of the products before they are transferred to the customer. When we act as an agent in a sales arrangement and do not bear a significant portion of inventory risks, primarily for our third-party logistics business, we record revenue net of product cost. Sales taxes collected from customers and remitted to governmental authorities are excluded from revenues.

See Note 14 for disaggregation of revenue by segment and geography as we believe that best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors.

## Note 2—Fair Value

The carrying amounts of cash and cash equivalents, accounts receivable, financing receivables, accounts payable and financing payables included in the consolidated balance sheets approximate fair value due to the short-term nature of these instruments. The fair value of long-term debt is estimated based on quoted market prices or dealer quotes for the identical liability when traded as an asset in an active market (Level 1) or, if quoted market prices or dealer quotes are not available, on the borrowing rates currently available for loans with similar terms, credit ratings and average remaining maturities (Level 2). We determine the fair value of our derivatives based on estimated amounts that would be received or paid to terminate the contracts at the reporting date based on current market prices for applicable currencies. See Notes 6 and 9 for the fair value of derivatives and long-term debt.

## Note 3—Acquisitions

Avanos Medical Inc.'s (previously Halyard Health, Inc.) S&IP Business

On April 30, 2018 (the Closing Date), we completed the previously announced acquisition of substantially all of Avanos Medical, Inc.'s (Avanos, previously Halyard Health, Inc.) Surgical and Infection Prevention business, the name "Halyard Health" (and all variations of that name and related intellectual property rights) and its IT system in exchange for \$758 million, net of cash acquired. The Halyard S&IP business is a leading global provider of medical supplies and solutions for the prevention of healthcare associated infections across acute care and non-acute care markets. This business is reported as part of the Global Products segment.

The following table presents the preliminary estimated fair value of the assets acquired and liabilities assumed recognized as of the acquisition date. The fair value of intangibles from this acquisition was primarily determined by applying the income approach, using several significant unobservable inputs for projected cash flows and a discount rate. These inputs are considered Level 3 inputs. The allocation of purchase price to assets and liabilities acquired is not yet complete, as valuations of tangible and intangible assets and liabilities are still in process.

	Preliminary Fair Value Originally Estimated as of Acquisition Date <sup>(1)</sup>	Differences Between Prior and the Current Periods Preliminary Fair Value Estimate	Fair Value Estimated as of Acquisition Date
Assets acquired:			
Current assets	\$ 307,427	\$ —	\$ 307,427
Goodwill	183,711	19,055	202,766
Intangible assets	191,000	—	191,000
Other noncurrent assets	152,555	1,019	153,574
Total assets	834,693	20,074	854,767
Liabilities assumed:			

Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-Q

Current liabilities	83,822	1,673	85,495
Noncurrent liabilities	11,223	—	11,223
Total liabilities	95,045	1,673	96,718
Fair value of net assets acquired, net of cash	\$ 739,648	\$ 18,401	\$ 758,049

9

---

Table of Contents

<sup>(1)</sup> As previously reported in our second quarter 2018 Form 10-Q.

The change in fair value of net assets acquired, net of cash, of \$18.4 million was the result of the final purchase price settlement with the seller of the Halyard S&IP business.

We are amortizing the preliminary fair value of acquired intangible assets, primarily customer relationships, a trade name and other intellectual property, over their estimated weighted average useful lives of eight to 12 years.

Goodwill of \$203 million, which we assigned to our Global Products segment, consists largely of expected opportunities to expand into new markets and further develop a presence in the medical products segment. None of the goodwill recognized is expected to be deductible for income tax purposes.

The following table provides pro forma results of net revenue for the three and nine months ended September 30, 2018 and 2017 as if Halyard S&IP was acquired on January 1, 2017. The pro forma results of net income (loss) and net income (loss) per common share have not been represented because the effects were not material to our historic consolidated financial statements. Accordingly, the pro forma results below are not necessarily indicative of the results that would have been if the acquisition had occurred on the dates indicated, nor are the pro forma results indicative of results which may occur in the future.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net revenue	\$2,464,877	\$2,543,961	\$7,575,727	\$7,558,441

**Byram Healthcare**

On August 1, 2017, we completed the acquisition of Byram Healthcare, a leading domestic distributor of reimbursable medical supplies sold directly to patients and home health agencies. The consideration was \$360 million, net of cash acquired. The purchase price was allocated to the underlying assets acquired and liabilities assumed based upon our estimate of their fair values at the date of acquisition. The purchase price exceeded the estimated fair value of the net tangible and identifiable intangible assets by \$284 million which was allocated to goodwill.

The following table presents the fair value of the assets acquired and liabilities assumed recognized as of the acquisition date. The fair value of intangibles from this acquisition was primarily determined by applying the income approach, using several significant unobservable inputs for projected cash flows and a discount rate. These inputs are considered Level 3 inputs.

	Preliminary Fair Value Originally Estimated as of Acquisition Date <sup>(2)</sup>	Differences Between Prior and the Current Periods Preliminary Fair Value Estimate	Fair Value as of Acquisition Date
<b>Assets acquired:</b>			
Current assets	\$ 61,986	\$ —	\$ 61,986
Goodwill	288,691	(4,933 )	283,758
Intangible assets	115,000	—	115,000
Other noncurrent assets	5,069	(1,282 )	3,787
Total assets	470,746	(6,215 )	464,531
<b>Liabilities assumed:</b>			
Current liabilities	72,962	—	72,962
Noncurrent liabilities	31,215	—	31,215
Total liabilities	104,177	—	104,177
Fair value of net assets acquired, net of cash	\$ 366,569	\$ (6,215 )	\$ 360,354



Table of Contents

(2) As previously reported in our 2017 Form 10-K.

We are amortizing the fair value of acquired intangible assets, primarily chronic customer relationships and a trade name, over their weighted average useful lives of three to 10 years.

Goodwill of \$284 million, which we assigned to our Global Solutions segment, consists largely of expected opportunities to grow in the non-acute market with direct to patient and home health agency distribution capabilities. None of the goodwill recognized is expected to be deductible for income tax purposes.

Pro forma results of operations for Byram have not been presented because the effects on revenue and net income were not material to our historic consolidated financial statements.

The change in fair value of net assets acquired, net of cash, of \$6.2 million was the result of the final purchase price settlement with the seller of Byram.

Acquisition-related expenses in the current quarter and year-to-date consisted primarily of transition and transaction costs for the Halyard S&IP transaction. Expenses in the prior year periods were primarily related to Byram. We recognized pre-tax acquisition-related expenses of \$5.7 million and \$41.0 million in the three and nine month periods ended September 30, 2018 and \$4.3 million and \$6.3 million related to these activities in the same periods of 2017.

Note 4—Financing Receivables and Payables

At September 30, 2018 and December 31, 2017, we had financing receivables of \$146.8 million and \$192.1 million and related payables of \$88.1 million and \$124.9 million outstanding under our order-to-cash program and product financing arrangements, which were included in other current assets and other current liabilities, respectively, in the consolidated balance sheets.

Note 5—Goodwill and Intangible Assets

We test goodwill for impairment annually (as of October 1) or more frequently whenever events or circumstances more likely than not indicate that the fair value of the reporting unit may be below its carrying amount. As a result of lower than projected financial results of certain reporting units due to customer losses and operational inefficiencies, which have caused us to revise our expectations with regard to future performance, and a decline in market capitalization of the Company, we determined that there were indicators present that would require an interim impairment analysis. During the quarter ended June 30, 2018, we performed an interim goodwill impairment test and concluded that the fair values for certain reporting units comprising our kitting business within our Global Products segment were below their carrying amount.

We determined the estimated fair value of our reporting units by using an income (discounted cash flow analysis) approach. The income approach is dependent upon several assumptions regarding future periods, including assumptions with respect to future sales growth and a terminal growth rate. In addition, a weighted average cost of capital (“WACC”) was used to discount future estimated cash flows to their present values. The WACC was based on externally observable data considering market participants’ cost of equity and debt, optimal capital structure and risk factors specific to our company.

In conjunction with our interim impairment testing performed during the quarter ended June 30, 2018, we adopted ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. See Note 16 for further information.

The amount by which the carrying values of the impaired reporting units' goodwill exceeded their fair values was \$149.0 million, which was recognized as an impairment loss for the quarter ended June 30, 2018 in the accompanying consolidated statements of income (loss) as "Goodwill and intangible asset impairment charges." In connection with our new segment structure, which began in the first quarter of 2018, goodwill is now reported as part of Global Solutions or Global Products. There was no change to our underlying reporting units as part of that segment change and therefore no reallocation of goodwill. The following table summarizes the goodwill balances by segment and the changes in the carrying amount of goodwill through September 30, 2018:

	Global Solutions	Global Products	Consolidated
Carrying amount of goodwill, December 31, 2017	\$495,860	\$217,951	\$ 713,811
Currency translation adjustments	(1,013 )	(490 )	(1,503 )
Acquisitions (see Note 3)	(4,933 )	202,766	197,833
Carrying amount of goodwill, September 30, 2018	489,914	420,227	910,141
Accumulated goodwill impairment, December 31, 2017	—	—	—
Goodwill impairment charge	—	(148,968 )	(148,968 )
Accumulated goodwill impairment, September 30, 2018	—	(148,968 )	(148,968 )
Net carrying amount of goodwill, September 30, 2018	\$489,914	\$271,259	\$ 761,173

Intangible assets at September 30, 2018, and December 31, 2017, were as follows:

	September 30, 2018			December 31, 2017		
	Customer Relationships	Tradenames	Other Intangibles	Customer Relationships	Tradenames	Other Intangibles
Gross intangible assets	\$267,850	\$ 97,000	\$ 44,261	\$199,265	\$ 31,000	\$ 12,537
Accumulated amortization (66,233 )	(6,308 )	(4,398 )	(54,757 )	(1,769 )	(1,808 )	(1,808 )
Net intangible assets	\$201,617	\$ 90,692	\$ 39,863	\$144,508	\$ 29,231	\$ 10,729

During the quarter ended June 30, 2018, we noted impairment indicators related to our intangible assets. Consistent with the impairment indicators that were considered in performing our interim goodwill impairment assessment, lower than projected financial results of certain reporting units due to customer losses and operational inefficiencies have caused us to revise our expectations with regard to future performance. We performed an impairment test based on the projected undiscounted future cash flows, resulting in the recording of an impairment charge of \$16.5 million related to a write-off of customer relationships in our kitting business within our Global Products segment. We recorded this amount in "Goodwill and intangible asset impairment charges" in our accompanying consolidated statements of income (loss).

At September 30, 2018, \$112.1 million in net intangible assets were held in the Global Solutions segment and \$220.1 million were held in the Global Products segment. Amortization expense for intangible assets was \$10.4 million and \$5.1 million for the three months ended September 30, 2018 and 2017 and \$26.1 million and \$9.7 million for the nine months ended September 30, 2018 and 2017.

Based on the current carrying value of intangible assets subject to amortization, estimated amortization expense is \$10.4 million for the remainder of 2018, \$41.6 million for 2019, \$40.6 million for 2020, \$38.9 million for 2021, \$38.0 million for 2022 and \$37.8 million for 2023.

#### Note 6—Derivatives

We are directly and indirectly affected by changes in foreign currency, which may adversely impact our financial performance and are referred to as "market risks." When deemed appropriate, we use derivatives as a risk management tool to mitigate the potential impact of certain market risks. We do not enter into derivative financial instruments for trading purposes.

We use a layered hedging program to hedge select anticipated foreign currency cash flows to reduce volatility in cash flows. We account for the designated foreign exchange forward contracts as cash flow hedges. These foreign exchange forward contracts generally have maturities up to 12 months and the counterparties to the transactions are typically large international financial institutions.





We pay interest under our Credit Agreement which fluctuates based on changes in our benchmark interest rates. In order to mitigate the risk, we entered into interest rate swaps during the third quarter whereby we agree to exchange with the counterparty, at specified intervals, the difference between fixed and variable amounts calculated by reference to the notional amount. The interest rate swaps were designated as cash flow hedges. Cash flows related to the interest rate swap agreements is included in interest expense.

We determine the fair value of our foreign currency derivatives and our interest rate swaps based on observable market-based inputs or unobservable inputs that are corroborated by market data. We do not view the fair value of our derivatives in isolation, but rather in relation to the fair values or cash flows of the underlying exposure. Our derivatives are over-the-counter instruments with liquid markets. All derivatives are carried at fair value in our consolidated balance sheets in other assets and other liabilities line items. We consider the risk of counterparty default to be minimal. We present cash flows from our hedging instruments in the same cash flow statement category as the hedged items.

The following table summarizes our outstanding cash flow hedges as of September 30, 2018:

	Notional Amount	Fair Value	Level in Fair Value Hierarchy	Maturity Date
Interest rate swaps	\$450,000	\$1,794	Level 2	May 2022 & May 2025
Foreign currency contracts	\$20,595	\$166	Level 2	December 2018 - September 2019

The following table summarizes the gain (loss) included in accumulated other comprehensive loss for our hedges as of September 30, 2018:

Interest rate swaps	\$1,794
Foreign currency contracts	\$166

For the three and nine months ended September 30, 2018, we reclassified \$0.4 million associated with our interest rate swaps and \$0.1 million and \$0.4 million, respectively, associated with our foreign currency contracts out of accumulated other comprehensive income (loss). The amount of ineffectiveness associated with these contracts was immaterial for the periods presented.

We enter into foreign currency contracts to manage our foreign exchange exposure related to certain balance sheet items that do not meet the requirements for hedge accounting. With the acquisition of the Halyard business, we also assumed foreign currency contracts that mature through April 2019 and do not meet the requirements for hedge accounting treatment. These derivative instruments are adjusted to fair value at the end of each period through earnings. The gain or loss recorded on these instruments is substantially offset by the remeasurement adjustment on the foreign currency denominated asset or liability. We record the change in fair value of derivative instruments and the remeasurement adjustment on the foreign currency denominated asset or liability in acquisition-related and exit and realignment charges for contracts assumed with the Halyard acquisition and in other operating (income) expense, net for all other foreign exchange contracts.

The following table summarizes our outstanding economic (non-designated) hedges as of September 30, 2018:

	Notional Amount	Fair Value	Level in Fair Value Hierarchy	Maturity Date
Foreign currency contracts	\$34,817	\$317	Level 2	October 2018 - April 2019

For the three and nine months ended September 30, 2018, we recognized income of \$0.5 million and losses of \$2.3 million associated with our economic (non-designated) foreign currency contracts.

We were not a party to any derivatives for the year ended December 31, 2017.

#### Note 7—Exit and Realignment Charges

We periodically incur exit and realignment and other charges associated with optimizing our operations, which includes the consolidation of certain distribution and logistics centers, administrative offices and warehouses in the United States and Europe. These charges also include costs associated with our strategic organizational realignment which include management changes, certain professional fees and costs to streamline administrative functions and processes.



Exit and realignment charges by segment for the three and nine months ended September 30, 2018 and 2017 were as follows:

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2018	2017	2018	2017
Global Solutions segment	\$2,085	\$4,454	\$6,523	\$13,827
Global Products segment	(80 )	592	(108 )	1,015
Total exit and realignment charges	\$2,005	\$5,046	\$6,415	\$14,842

The following table summarizes the activity related to exit and realignment cost accruals through September 30, 2018 and 2017:

	Lease Obligations	Severance and Other	Total
Accrued exit and realignment costs, December 31, 2017	\$ —	—\$ 11,972	\$11,972
Provision for exit and realignment activities	—	2,295	2,295
Change in estimate	—	(23 )	(23 )
Cash payments	—	(6,479 )	(6,479 )
Accrued exit and realignment costs, March 31, 2018	—	7,765	7,765
Provision for exit and realignment activities	—	(415 )	(415 )
Change in estimate	—	—	—
Cash payments	—	(4,207 )	(4,207 )
Accrued exit and realignment costs, June 30, 2018	—	3,143	3,143
Provision for exit and realignment activities	—	640	640
Change in estimate	—	(85 )	(85 )
Cash payments	—	(2,487 )	(2,487 )
Accrued exit and realignment costs, September 30, 2018	\$ —	—\$ 1,211	\$1,211
Accrued exit and realignment costs, December 31, 2016	\$ —	—\$ 2,238	\$2,238
Provision for exit and realignment activities	—	3,211	3,211
Change in estimate	—	(304 )	(304 )
Cash payments	—	(3,034 )	(3,034 )
Accrued exit and realignment costs, March 31, 2017	—	2,111	2,111
Provision for exit and realignment activities	—	1,382	1,382
Change in estimate	—	(18 )	(18 )
Cash payments	—	(667 )	(667 )
Accrued exit and realignment costs, June 30, 2017	—	2,808	2,808
Provision for exit and realignment activities	—	3,156	3,156
Cash payments	—	(423 )	(423 )
Accrued exit and realignment costs, September 30, 2017	\$ —	—\$ 5,541	\$5,541

In addition to the exit and realignment accruals in the preceding table, we also incurred \$1.4 million of costs that were expensed as incurred for the quarter ended September 30, 2018, including \$0.6 million in information system restructuring costs and \$0.8 million in other costs. For the first nine months of 2018, we incurred \$4.0 million in costs that were expensed as incurred, including \$1.9 million in information system restructuring costs and \$2.1 million in other costs.

We incurred \$1.9 million of costs that were expensed as incurred for the three months ended September 30, 2017, including \$1.7 million in information system restructuring costs and \$0.2 million in other costs. In the first nine months of 2017, we incurred \$7.4 million of costs that were expensed as incurred, including \$4.5 million in asset write-downs, \$1.9 million in information system restructuring costs and \$1.0 million in other costs.



Table of Contents

## Note 8—Retirement Plans

We have a noncontributory, unfunded retirement plan for certain officers and retirees in the United States. Certain of our foreign subsidiaries also have defined benefit pension plans covering substantially all of their respective employees.

The components of net periodic benefit cost, which are included in distribution, selling and administrative expenses, for the three and nine months ended September 30, 2018 and 2017, were as follows:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Service cost	\$(28 )	\$26	\$10	\$53
Interest cost	418	474	1,256	1,422
Recognized net actuarial loss	522	456	1,566	1,367
Net periodic benefit cost	\$912	\$956	\$2,832	\$2,842

Certain of our foreign subsidiaries have health and welfare plans covering substantially all of their respective employees. Our expense for these plans totaled \$0.5 million and \$0.5 million for the three months ended September 30, 2018 and 2017, respectively and \$1.6 million and \$1.3 million for the nine months ended September 30, 2018 and 2017, respectively.

## Note 9—Debt

We have \$275 million of 3.875% senior notes due 2021 (the “2021 Notes”) and \$275 million of 4.375% senior notes due 2024 (the “2024 Notes”), with interest payable semi-annually. The 2021 Notes were sold at 99.5% of the principal amount with an effective yield of 3.951%. The 2024 Notes were sold at 99.6% of the principal with an effective yield of 4.422%. We have the option to redeem the 2021 Notes and 2024 Notes in part or in whole prior to maturity at a redemption price equal to the greater of 100% of the principal amount or the present value of the remaining scheduled payments discounted at the Treasury Rate plus 30 basis points. As of September 30, 2018 and December 31, 2017, the estimated fair value of the 2021 Notes was \$258.0 million and \$278.1 million and the estimated fair value of the 2024 Notes was \$235.5 million and \$277.9 million, respectively.

We have a Credit Agreement with a borrowing capacity of \$600 million and a \$250 million Term A-1 loan. In connection with the Halyard S&IP acquisition, we amended our Credit Agreement to include, among others things, an additional \$195.8 million Term A-2 loan and \$500 million Term B loan. The revolving credit facility and Term A loans mature in July 2022 and the Term B loan matures in October 2025.

In connection with amending our Credit Agreement, we entered into a Security and Pledge Agreement (the “Security Agreement”) pursuant to which we granted collateral on behalf of the holders of the 2021 Notes and the 2024 Notes and parties secured on the Credit Agreement (“the Secured Parties”) including first priority liens and security interests in (a) all present and future shares of capital stock owned by the Credit Parties (as defined) in the Credit Parties’ present and future subsidiaries (limited, in the case of controlled foreign corporations, to a pledge of 65% of the voting capital stock of each first-tier foreign subsidiary of each Credit Party) and (b) all present and future personal property and assets of the Credit Parties, subject to certain exceptions. Our Credit Agreement has a “springing maturity date” with respect to the revolving loans and the term A loans and the term B loans, if as of the date that is 91 days prior to the maturity date of the Company’s 2021 Notes or the 2024 Notes, respectively, all outstanding amounts owing under the 2021 Notes or the 2024 Notes, respectively, have not been paid in full then the Termination Date (as defined in the Credit Agreement) of the revolving loans, term A loans and term B loans shall be the date that is 91 days prior to the maturity date of the 2021 Notes.

We make principal payments under the term loans on a quarterly basis with the remaining outstanding principal due upon maturity. Under the Credit Agreement, we have the ability to request two one-year extensions and to request an increase in aggregate commitments by up to \$200 million. The interest rate on our revolving credit facility and Term A loans, which is subject to adjustment quarterly, is based on the Eurocurrency Rate, the Federal Funds Rate or the

Prime Rate, plus an adjustment based on the better of our credit ratings or debt to EBITDA ratio as defined by the Credit Agreement. Our Term B loan pays interest based on the Eurocurrency Rate, the Federal Funds Rate or the Prime Rate, plus interest rate margin of 3.50% per annum with respect to Base Rate Loans (as defined in the Credit Agreement), and 4.50% per annum with respect to Eurocurrency Rate Loans (as defined in the Credit Agreement). We are charged a commitment fee of between 12.5 and 25.0 basis points on the unused portion of the facility. The terms of the Credit Agreement limit the amount of indebtedness that we may incur and require us to maintain ratios for leverage and interest coverage, including on a pro forma basis in the event of an acquisition. Based on our Credit Spread, the interest rate under the credit facility at September 30, 2018 is Eurocurrency Rate plus 2.00%.

At September 30, 2018, we had borrowings of \$179.4 million under the revolver and letters of credit of \$13.9 million outstanding under the Credit Agreement, leaving \$406.7 million available for borrowing. We also had letters of credit outstanding for \$6.4 million as of September 30, 2018 and \$1.3 million as of December 31, 2017, which supports certain facilities leased in the United States and Europe.

Scheduled future principal payments of debt are \$6.9 million in 2018, \$27.5 million in 2019, \$30.3 million in 2020, \$316.6 million in 2021, \$527.7 million in 2022, and \$753.8 million thereafter.

The Credit Agreement and senior notes contain cross-default provisions which could result in the acceleration of payments due in the event of default of either agreement. We believe we were in compliance with our debt covenants at September 30, 2018.

#### Note 10—Income Taxes

The effective tax rate was 77.1% and 2.2% for the three and nine months ended September 30, 2018, compared to 48.1% and 34.3% in the same periods of 2017. The change in the effective tax rate compared to 2017 resulted primarily from losses in jurisdictions with full valuation allowances, and discrete items related to tax reform and the release of certain reserves for uncertain tax positions. On a year-to-date basis, the rate was also affected by the goodwill and intangible asset impairment charges in the second quarter which were not deductible for income tax purposes. The liability for unrecognized tax benefits was \$9.5 million at September 30, 2018, and \$13.6 million at December 31, 2017. Included in the liability at September 30, 2018 were \$1.7 million of tax positions for which ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. On December 22, 2017, the President signed the Tax Cuts and Jobs Act (the Act). While we substantially completed our analysis of the Act as of December 31, 2017, the amounts recorded for the Act remained provisional for the transition tax, the remeasurement of deferred taxes, our reassessment of permanently reinvested earnings, uncertain tax positions and valuation allowances. During the third quarter of 2018, we recorded a discrete tax benefit of \$1.6 million for adjustments related to the transition tax, remeasurement of deferred taxes, and other items. There could be additional regulatory guidance issued or changes in the interpretations and assumptions taken that would adjust the provisional amounts recorded. We included an estimate of the current GILTI impact in our tax provision for 2018, however, we have not yet determined our policy election with respect to whether such taxes are recorded as a current period expense when incurred or whether such amounts should be factored into our measurement of its deferred taxes. Our analysis will be completed in the fourth quarter of 2018.



## Note 11—Net Income per Common Share

The following summarizes the calculation of net income per common share attributable to common shareholders for the three and nine months ended September 30, 2018 and 2017.

(in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Numerator:				
Net income (loss)	\$(565 )	\$10,871	\$(175,191)	\$49,796
Less: income allocated to unvested restricted shares	—	(279 )	—	(738 )
Net income (loss) attributable to common shareholders - basic	(565 )	10,592	(175,191 )	49,058
Add: undistributed income attributable to unvested restricted shares - basic	—	—	—	16
Less: undistributed income attributable to unvested restricted shares - diluted	—	—	—	(16 )
Net income (loss) attributable to common shareholders - diluted	\$(565 )	\$10,592	\$(175,191)	\$49,058
Denominator:				
Weighted average shares outstanding - basic and diluted	59,766	59,849	59,996	60,010
Net income (loss) per share attributable to common shareholders: basic and diluted	\$(0.01)	\$0.18	\$(2.92 )	\$0.82

## Note 12—Shareholders' Equity

Our Board of Directors has authorized a share repurchase program of up to \$100 million of our outstanding common stock to be executed at the discretion of management over a three-year period, expiring in December 2019. The timing of repurchases and the exact number of shares of common stock to be purchased will depend upon market conditions and other factors and may be suspended or discontinued at any time. Purchases under the share repurchase program are made either pursuant to 10b5-1 plans entered into by the company from time to time and/or during the company's scheduled quarterly trading windows for officers and directors. Our Credit Agreement contains restrictions on the amount and timing of share repurchase activity. This includes prohibiting share repurchases should a default under the Credit Agreement exist prior to or immediately after any share repurchases. There are also limitations depending upon our leverage ratio prior to any share repurchases or on a pro forma basis. We did not repurchase any shares during the nine months ended September 30, 2018. As of September 30, 2018, we have approximately \$94.0 million remaining under the repurchase program. We have elected to allocate any excess of share repurchase price over par value to retained earnings.

## Note 13—Accumulated Other Comprehensive Loss

The following table shows the changes in accumulated other comprehensive income (loss) by component for the three and nine months ended September 30, 2018 and 2017:

	Retirement Plans	Currency Translation Adjustments	Derivatives and Other	Total
Accumulated other comprehensive income (loss), June 30, 2018	\$(11,312 )	\$ (24,942 )	\$ 51	\$(36,203)
Other comprehensive income (loss) before reclassifications	—	350	1,932	2,282
Income tax	—	—	(5 )	(5 )
Other comprehensive income (loss) before reclassifications, net of tax	—	350	1,927	2,277
Amounts reclassified from accumulated other comprehensive income (loss)	523	—	491	1,014
Income tax	(161 )	—	(98 )	(259 )
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	362	—	393	755
Other comprehensive income (loss)	362	350	2,320	3,032
Accumulated other comprehensive income (loss), September 30, 2018	\$(10,950 )	\$ (24,592 )	\$ 2,371	\$(33,171)
Accumulated other comprehensive income (loss), June 30, 2017	\$(10,743 )	\$ (28,348 )	\$ 165	\$(38,926)
Other comprehensive income (loss) before reclassifications	—	12,254	94	12,348
Income tax	—	—	—	—
Other comprehensive income (loss) before reclassifications, net of tax	—	12,254	94	12,348
Amounts reclassified from accumulated other comprehensive income (loss)	456	—	—	456
Income tax	(220 )	—	—	(220 )
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	236	—	—	236
Other comprehensive income (loss)	236	12,254	94	12,584
Accumulated other comprehensive income (loss), September 30, 2017	\$(10,507 )	\$ (16,094 )	\$ 259	\$(26,342)

	Retirement Plans	Currency Translation Adjustments	Derivatives and Other	Total
Accumulated other comprehensive income (loss), December 31, 2017	\$(12,066 )	\$ (13,185 )	\$ 167	\$(25,084)
Other comprehensive income (loss) before reclassifications	—	(11,407 )	2,169	(9,238 )
Income tax	—	—	(21 )	(21 )
Other comprehensive income (loss) before reclassifications, net of tax	—	(11,407 )	2,148	(9,259 )
Amounts reclassified from accumulated other comprehensive income (loss)	1,565	—	65	1,630
Income tax	(449 )	—	(9 )	(458 )
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	1,116	—	56	1,172
Other comprehensive income (loss)	1,116	(11,407 )	2,204	(8,087 )
Accumulated other comprehensive income (loss), September 30, 2018	\$(10,950 )	\$ (24,592 )	\$ 2,371	\$(33,171)
Accumulated other comprehensive income (loss), December 31, 2016	\$(11,209 )	\$ (56,245 )	\$ (29 )	\$(67,483)
Other comprehensive income (loss) before reclassifications	—	40,151	288	40,439
Income tax	—	—	—	—
Other comprehensive income (loss) before reclassifications, net of tax	—	40,151	288	40,439
Amounts reclassified from accumulated other comprehensive income (loss)	1,367	—	—	1,367
Income tax	(665 )	—	—	(665 )
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	702	—	—	702
Other comprehensive income (loss)	702	40,151	288	41,141
Accumulated other comprehensive income (loss), September 30, 2017	\$(10,507 )	\$ (16,094 )	\$ 259	\$(26,342)

We include amounts reclassified out of accumulated other comprehensive income (loss) related to defined benefit pension plans as a component of net periodic pension cost recorded in distribution, selling and administrative expenses. For the three and nine months ended September 30, 2018, we reclassified \$0.5 million and \$1.6 million of actuarial net losses. For the three and nine months ended September 30, 2017, we reclassified \$0.5 million and \$1.4 million of actuarial net losses.

#### Note 14—Segment Information

We periodically evaluate our application of accounting guidance for reportable segments and disclose information about reportable segments based on the way management organizes the enterprise for making operating decisions and assessing performance. We report our business under two segments: Global Solutions and Global Products. The Global Solutions segment includes our United States and European distribution, logistics and value-added services business. Global Products provides product-related solutions, including surgical and procedural kitting and sourcing. The Halyard S&IP business, acquired on April 30, 2018, is a part of Global Products.

We evaluate the performance of our segments based on their operating income excluding acquisition-related and exit and realignment charges, certain purchase price fair value adjustments, and other substantive items that, either as a result of their nature or size, would not be expected to occur as part of our normal business operations on a regular basis. Beginning in the second quarter of 2018, the Company is excluding acquisition-related intangible amortization from the measure of segment operating income. This change is consistent with management's internal measure of segment results. Prior periods have been recast on a consistent basis.

Segment assets exclude inter-segment account balances as we believe their inclusion would be misleading and not meaningful. We believe all inter-segment sales are at prices that approximate market.

The following tables present financial information by segment:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net revenue:				
Segment net revenue				
Global Solutions	\$2,243,782	\$2,290,804	\$6,875,077	\$6,806,126
Global Products	349,895	124,542	750,770	392,654
Total segment net revenue	2,593,677	2,415,346	7,625,847	7,198,780
Inter-segment revenue				
Global Products	(128,800 )	(81,385 )	(330,120 )	(270,339 )
Total inter-segment revenue	(128,800 )	(81,385 )	(330,120 )	(270,339 )
Consolidated net revenue	\$2,464,877	\$2,333,961	\$7,295,727	\$6,928,441
Operating income (loss):				
Global Solutions	\$24,150	\$37,556	\$84,742	\$107,636
Global Products	27,634	10,510	61,351	30,199
Inter-segment eliminations	(2,957 )	416	(3,032 )	(266 )
Goodwill and intangible asset impairment charges	—	—	(165,447 )	—
Acquisition-related intangible amortization	(10,366 )	(5,071 )	(26,147 )	(9,737 )
Acquisition-related and exit and realignment charges	(7,727 )	(9,299 )	(47,416 )	(21,134 )
Other <sup>(1)</sup>	(9,377 )	(4,441 )	(30,527 )	(8,674 )
Consolidated operating income (loss)	\$21,357	\$29,671	\$(126,476 )	\$98,024
Depreciation and amortization:				
Global Solutions	\$15,829	\$13,906	\$47,464	\$35,305
Global Products	13,953	1,947	26,132	5,755
Consolidated depreciation and amortization	\$29,782	\$15,853	\$73,596	\$41,060
Capital expenditures:				
Global Solutions	\$12,006	\$12,778	\$40,152	\$35,035
Global Products	5,245	718	7,153	2,754
Consolidated capital expenditures	\$17,251	\$13,496	\$47,305	\$37,789
	September	December		
	30, 2018	31, 2017		
Total assets:				
Global Solutions	\$2,779,512	\$2,870,999		
Global Products	1,127,879	400,772		
Segment assets	3,907,391	3,271,771		
Cash and cash equivalents	124,890	104,522		
Consolidated total assets	\$4,032,281	\$3,376,293		

<sup>(1)</sup> Software as a Service (SaaS) implementation costs associated with significant global IT platforms in connection with the redesign of our global information system strategy and incremental charge to cost of goods sold from purchase accounting impacts related to the sale of acquired inventory that was written up to fair value.

The following table presents net revenue by geographic area, which were attributed based on the location from which we ship products or provide services.

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Net revenue:				
United States	\$2,200,196	\$2,214,175	\$6,694,761	\$6,577,373
Outside of the United States	264,681	119,786	600,966	351,068
Consolidated net revenue	\$2,464,877	\$2,333,961	\$7,295,727	\$6,928,441

Note 15—Condensed Consolidating Financial Information

The following tables present condensed consolidating financial information for: Owens & Minor, Inc. (O&M); the guarantors of Owens & Minor, Inc.'s 2021 Notes and 2024 Notes, on a combined basis; and the non-guarantor subsidiaries of the 2021 Notes and 2024 Notes, on a combined basis. The guarantor subsidiaries are 100% owned by Owens & Minor, Inc. Separate financial statements of the guarantor subsidiaries are not presented because the guarantees by our guarantor subsidiaries are full and unconditional, as well as joint and several, and we believe the condensed consolidating financial information is more meaningful in understanding the financial position, results of operations and cash flows of the guarantor subsidiaries.

Three Months Ended September 30, 2018	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Statements of Income (Loss)					
Net revenue	\$ —	\$2,242,265	\$ 464,567	\$(241,955 )	\$2,464,877
Cost of goods sold	—	2,015,614	335,819	(239,130 )	2,112,303
Gross margin	—	226,651	128,748	(2,825 )	352,574
Distribution, selling and administrative expenses	92	191,831	133,089	—	325,012
Acquisition-related and exit and realignment charges	—	6,818	909	—	7,727
Other operating (income) expense, net	—	(1,156 )	(366 )	—	(1,522 )
Operating income (loss)	(92 )	29,158	(4,884 )	(2,825 )	21,357
Interest expense (income), net	6,554	15,717	1,555	—	23,826
Income (loss) before income taxes	(6,646 )	13,441	(6,439 )	(2,825 )	(2,469 )
Income tax provision (benefit)	(1,729 )	2,163	(2,338 )	—	(1,904 )
Equity in earnings of subsidiaries	4,352	(12,284 )	—	7,932	—
Net income (loss)	(565 )	(1,006 )	(4,101 )	5,107	(565 )
Other comprehensive income (loss)	3,032	3,674	3,032	(6,706 )	3,032
Comprehensive income (loss)	\$ 2,467	\$2,668	\$ (1,069 )	\$(1,599 )	\$2,467

Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-Q

Three Months Ended September 30, 2017	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Statements of Income (Loss)					
Net revenue	\$ —	\$2,113,450	\$ 264,765	\$ (44,254 )	\$ 2,333,961
Cost of goods sold	—	1,919,049	157,439	(44,469 )	2,032,019
Gross margin	—	194,401	107,326	215	301,942
Distribution, selling and administrative expenses	(117 )	159,108	102,054	—	261,045
Acquisition-related and exit and realignment charges	—	6,960	2,339	—	9,299
Other operating (income) expense, net	—	448	1,479	—	1,927
Operating income (loss)	117	27,885	1,454	215	29,671
Interest expense (income), net	7,018	(1,184 )	2,903	—	8,737
Income (loss) before income taxes	(6,901 )	29,069	(1,449 )	215	20,934
Income tax provision (benefit)	—	7,881	2,182	—	10,063
Equity in earnings of subsidiaries	17,772	(4,105 )	—	(13,667 )	—
Net income (loss)	10,871	17,083	(3,631 )	(13,452 )	10,871
Other comprehensive income (loss)	12,584	12,905	12,254	(25,159 )	12,584
Comprehensive income (loss)	\$ 23,455	\$ 29,988	\$ 8,623	\$ (38,611 )	\$ 23,455
Nine Months Ended September 30, 2018					
Statements of Income (Loss)					
Net revenue	\$—	\$6,572,420	\$ 1,163,679	\$ (440,372 )	\$ 7,295,727
Cost of goods sold	—	5,960,655	769,936	(437,117 )	6,293,474
Gross margin	—	611,765	393,743	(3,255 )	1,002,253
Distribution, selling and administrative expenses	853	531,665	385,629	—	918,147
Acquisition-related and exit and realignment charges	—	44,075	3,341	—	47,416
Goodwill and intangible asset impairment charges	—	—	165,447	—	165,447
Other operating (income) expense, net	—	2,447	(4,728 )	—	(2,281 )
Operating income (loss)	(853 )	33,578	(155,946 )	(3,255 )	(126,476 )
Interest expense (income), net	20,167	28,061	4,423	—	52,651
Income (loss) before income taxes	(21,020 )	5,517	(160,369 )	(3,255 )	(179,127 )
Income tax provision (benefit)	(5,465 )	(278 )	1,807	—	(3,936 )
Equity in earnings of subsidiaries	(159,636 )	(45,994 )	—	205,630	—
Net income (loss)	(175,191 )	(40,199 )	(162,176 )	202,375	(175,191 )
Other comprehensive income (loss)	(8,087 )	(7,619 )	(8,086 )	15,705	(8,087 )
Comprehensive income (loss)	\$(183,278)	\$(47,818 )	\$(170,262 )	\$ 218,080	\$(183,278 )

Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-Q

Nine Months Ended September 30, 2017	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Statements of Income (Loss)					
Net revenue	\$ —	\$6,436,599	\$ 635,900	\$(144,058 )	\$ 6,928,441
Cost of goods sold	—	5,845,789	369,596	(143,598 )	6,071,787
Gross margin	—	590,810	266,304	(460 )	856,654
Distribution, selling and administrative expenses	434	480,765	254,154	—	735,353
Acquisition-related and exit and realignment charges	—	17,084	4,050	—	21,134
Other operating (income) expense, net	—	1,481	662	—	2,143
Operating income (loss)	(434 )	91,480	7,438	(460 )	98,024
Interest expense (income), net	20,756	(2,777 )	4,239	—	22,218
Income (loss) before income taxes	(21,190 )	94,257	3,199	(460 )	75,806
Income tax provision (benefit)	—	23,303	2,707	—	26,010
Equity in earnings of subsidiaries	70,986	(2,682 )	—	(68,304 )	—
Net income (loss)	49,796	68,272	492	(68,764 )	49,796
Other comprehensive income (loss)	41,141	41,910	40,151	(82,061 )	41,141
Comprehensive income (loss)	\$ 90,937	\$ 110,182	\$ 40,643	\$(150,825 )	\$ 90,937

Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-Q

September 30, 2018	Owens & Minor, Inc.	Guarantor Subsidiaries	Non- guarantor Subsidiaries	Eliminations	Consolidated
<b>Balance Sheets</b>					
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$67,240	\$—	\$57,650	\$—	\$124,890
Accounts receivable, net	—	742,145	410,172	(282,130 )	870,187
Merchandise inventories	—	1,012,385	196,286	(4,833 )	1,203,838
Other current assets	204	121,833	171,956		293,993
<b>Total current assets</b>	<b>67,444</b>	<b>1,876,363</b>	<b>836,064</b>	<b>(286,963 )</b>	<b>2,492,908</b>
Property and equipment, net	—	202,091	141,619	—	343,710
Goodwill, net	—	382,772	378,401	—	761,173
Intangible assets, net	—	191,547	140,625	—	332,172
Due from O&M and subsidiaries	—	633,839	—	(633,839 )	—
Advances to and investment in consolidated subsidiaries	1,955,218	489,349	—	(2,444,567 )	—
Other assets, net	—	63,071	39,247	—	102,318
<b>Total assets</b>	<b>\$2,022,662</b>	<b>\$3,839,032</b>	<b>\$1,535,956</b>	<b>\$(3,365,369)</b>	<b>\$4,032,281</b>
<b>Liabilities and equity</b>					
<b>Current liabilities</b>					
Accounts payable	\$—	\$1,052,834	\$348,069	\$(293,362 )	\$1,107,541
Accrued payroll and related liabilities	—	19,980	27,424	—	47,404
Other current liabilities	22,797	128,488	150,515		301,800
<b>Total current liabilities</b>	<b>22,797</b>	<b>1,201,302</b>	<b>526,008</b>	<b>(293,362 )</b>	<b>1,456,745</b>
Long-term debt, excluding current portion	546,082	1,080,426	13,947	—	1,640,455
Due to O&M and subsidiaries	661,370	—	526,764	(1,188,134 )	—
Intercompany debt	—	138,890	—	(138,890 )	—
Deferred income taxes	—	19,361	47,084	—	66,445
Other liabilities	—	60,125	16,098	—	76,223
<b>Total liabilities</b>	<b>1,230,249</b>	<b>2,500,104</b>	<b>1,129,901</b>	<b>(1,620,386 )</b>	<b>3,239,868</b>
<b>Equity</b>					
Common stock	124,538	—	—	—	124,538
Paid-in capital	233,920	174,614	643,031	(817,645 )	233,920
Retained earnings (deficit)	467,126	1,195,966	(215,591 )	(980,375 )	467,126
Accumulated other comprehensive income (loss)	(33,171 )	(31,652 )	(21,385 )	53,037	(33,171 )
<b>Total equity</b>	<b>792,413</b>	<b>1,338,928</b>	<b>406,055</b>	<b>(1,744,983 )</b>	<b>792,413</b>
<b>Total liabilities and equity</b>	<b>\$2,022,662</b>	<b>\$3,839,032</b>	<b>\$1,535,956</b>	<b>\$(3,365,369)</b>	<b>\$4,032,281</b>



Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-Q

December 31, 2017	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
<b>Balance Sheets</b>					
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 13,700	\$ 865	\$ 89,957	\$—	\$ 104,522
Accounts receivable, net	—	559,269	206,410	(6,743 )	758,936
Merchandise inventories	—	902,190	89,580	(1,577 )	990,193
Other current assets	100	123,067	205,087	—	328,254
<b>Total current assets</b>	<b>13,800</b>	<b>1,585,391</b>	<b>591,034</b>	<b>(8,320 )</b>	<b>2,181,905</b>
Property and equipment, net	—	107,010	99,480	—	206,490
Goodwill, net	—	180,006	533,805	—	713,811
Intangible assets, net	—	9,582	174,886	—	184,468
Due from O&M and subsidiaries	—	439,654	—	(439,654 )	—
Advances to and investments in consolidated subsidiaries	2,114,853	558,429	—	(2,673,282 )	—
Other assets, net	—	57,724	31,895	—	89,619
<b>Total assets</b>	<b>\$ 2,128,653</b>	<b>\$ 2,937,796</b>	<b>\$ 1,431,100</b>	<b>\$ (3,121,256)</b>	<b>\$ 3,376,293</b>
<b>Liabilities and equity</b>					
<b>Current liabilities</b>					
Accounts payable	\$—	\$ 824,307	\$ 130,028	\$(6,763 )	\$ 947,572
Accrued payroll and related liabilities	—	15,504	14,912	—	30,416
Other current liabilities	5,822	140,048	185,875	—	331,745
<b>Total current liabilities</b>	<b>5,822</b>	<b>979,859</b>	<b>330,815</b>	<b>(6,763 )</b>	<b>1,309,733</b>
Long-term debt, excluding current portion	545,352	340,672	14,720	—	900,744
Due to O&M and subsidiaries	562,000	—	506,703	(1,068,703 )	—
Intercompany debt	—	138,890	—	(138,890 )	—
Deferred income taxes	—	25,493	48,754	—	74,247
Other liabilities	—	66,136	9,954	—	76,090
<b>Total liabilities</b>	<b>1,113,174</b>	<b>1,551,050</b>	<b>910,946</b>	<b>(1,214,356 )</b>	<b>2,360,814</b>
<b>Equity</b>					
Common stock	122,952	—	—	—	122,952
Paid-in capital	226,937	174,614	583,869	(758,483 )	226,937
Retained earnings (deficit)	690,674	1,236,165	(50,416 )	(1,185,749 )	690,674
Accumulated other comprehensive income (loss)	(25,084 )	(24,033 )	(13,299 )	37,332	(25,084 )
<b>Total equity</b>	<b>1,015,479</b>	<b>1,386,746</b>	<b>520,154</b>	<b>(1,906,900 )</b>	<b>1,015,479</b>
<b>Total liabilities and equity</b>	<b>\$ 2,128,653</b>	<b>\$ 2,937,796</b>	<b>\$ 1,431,100</b>	<b>\$ (3,121,256)</b>	<b>\$ 3,376,293</b>

Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-Q

Nine Months Ended September 30, 2018	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Statements of Cash Flows					
Operating activities:					
Net income (loss)	\$(175,191)	\$(40,199 )	\$(162,176 )	\$ 202,375	\$(175,191 )
Adjustments to reconcile net income (loss) to cash provided by (used for) operating activities:					
Equity in earnings of subsidiaries	159,636	45,994	—	(205,630 )	—
Intercompany dividend	—	15,000	—	(15,000 )	—
Depreciation and amortization	—	25,146	48,450	—	73,596
Share-based compensation expense	—	10,499	—	—	10,499
Goodwill and intangible asset impairment charges	—	—	165,447	—	165,447
Provision for losses on accounts receivable	—	(1,206 )	6,963	—	5,757
Deferred income tax (benefit) expense	—	(6,506 )	(248 )	—	(6,754 )
Changes in operating assets and liabilities:					
Accounts receivable	—	(111,108 )	(215,882 )	275,387	(51,603 )
Merchandise inventories	—	124,822	(106,832 )	3,254	21,244
Accounts payable	—	154,987	219,805	(286,594 )	88,198
Net change in other assets and liabilities	16,959	(76,608 )	36,919	11,208	(11,522 )
Other, net	641	988	1,209	—	2,838
Cash provided by (used for) operating activities	2,045	141,809	(6,345 )	(15,000 )	122,509
Investing activities:					
Acquisitions, net of cash acquired	—	(751,834 )	—	—	(751,834 )
Additions to property and equipment	—	(20,754 )	(11,735 )	—	(32,489 )
Additions to computer software and intangible assets	—	(12,351 )	(2,465 )	—	(14,816 )
Proceeds from the sale of property and equipment	—	—	258	—	258
Cash used for investing activities	—	(784,939 )	(13,942 )	—	(798,881 )
Financing activities:					
Change in intercompany advances	85,643	(89,239 )	3,596	—	—
Intercompany dividend	—	—	(15,000 )	15,000	—
Proceeds from issuance of debt	—	695,750	—	—	695,750
Financing costs paid	—	(28,512 )	—	—	(28,512 )
Repayments of debt	—	(9,375 )	—	—	(9,375 )
Proceeds from revolving credit facility	—	74,762	—	—	74,762
Cash dividends paid	(32,151 )	—	—	—	(32,151 )
Other, net	(1,997 )	(1,121 )	(2,190 )	—	(5,308 )
Cash provided by (used for) financing activities	51,495	642,265	(13,594 )	15,000	695,166
Effect of exchange rate changes on cash and cash equivalents	—	—	1,574	—	1,574
Net increase (decrease) in cash and cash equivalents	53,540	(865 )	(32,307 )	—	20,368
Cash and cash equivalents at beginning of period	13,700	865	89,957	—	104,522
Cash and cash equivalents at end of period	\$67,240	\$—	\$ 57,650	\$—	\$ 124,890

Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-Q

Nine Months Ended September 30, 2017	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Statements of Cash Flows					
Operating activities:					
Net income (loss)	\$ 49,796	\$ 68,272	\$ 492	\$ (68,764 )	\$ 49,796
Adjustments to reconcile net income (loss) to cash provided by (used for) operating activities:					
Equity in earnings of subsidiaries	(70,986 )	2,682	—	68,304	—
Depreciation and amortization	—	23,281	17,779	—	41,060
Share-based compensation expense	—	8,592	—	—	8,592
Provision for losses on accounts receivable	—	(377 )	1,535	—	1,158
Deferred income tax (benefit) expense	—	(1,208 )	(3,377 )	—	(4,585 )
Changes in operating assets and liabilities:					
Accounts receivable	—	(68,655 )	(8,047 )	(2,412 )	(79,114 )
Merchandise inventories	—	(52,840 )	(3,753 )	459	(56,134 )
Accounts payable	—	85,591	(8,217 )	2,413	79,787
Net change in other assets and liabilities	(65 )	(25,431 )	(15,138 )	—	(40,634 )
Other, net	(1 )	5,716	4	—	5,719
Cash provided by (used for) operating activities	(21,256 )	45,623	(18,722 )	—	5,645
Investing activities:					
Acquisitions, net of cash acquired	—	—	(366,569 )	—	(366,569 )
Additions to property and equipment	—	(17,884 )	(7,079 )	—	(24,963 )
Additions to computer software and intangible assets	—	(5,333 )	(7,493 )	—	(12,826 )
Proceeds from the sale of property and equipment	—	198	582	—	780
Cash used for investing activities	—	(23,019 )	(380,559 )	—	(403,578 )
Financing activities:					
Change in intercompany advances	50,452	(87,278 )	36,826	—	—
Proceeds from debt issuance	—	—	250,000	—	250,000
Borrowings from revolving credit facility	—	6,013	111,187	—	117,200
Financing costs paid	—	—	(1,798 )	—	(1,798 )
Cash dividends paid	(47,316 )	—	—	—	(47,316 )
Repurchases of common stock	(5,000 )	—	—	—	(5,000 )
Other, net	(3,439 )	(1,460 )	(2,464 )	—	(7,363 )
Cash provided by (used for) financing activities	(5,303 )	(82,725 )	393,751	—	305,723
Effect of exchange rate changes on cash and cash equivalents	—	—	5,137	—	5,137
Net increase (decrease) in cash and cash equivalents	(26,559 )	(60,121 )	(393 )	—	(87,073 )
Cash and cash equivalents at beginning of period	38,015	61,266	86,207	—	185,488
Cash and cash equivalents at end of period	\$ 11,456	\$ 1,145	\$ 85,814	\$ —	\$ 98,415

#### Note 16—Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) which amended the existing accounting standards for revenue recognition. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. We adopted ASU 2014-09 in the first quarter of 2018 using the modified retrospective approach. The impact on our consolidated financial statements is not material. See Note 1 for further information.

In February 2016, the FASB established Topic 842, Leases, by issuing Accounting Standards Update (ASU) No. 2016-02, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by ASU No. 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU No. 2018-10, Codification Improvements to Topic 842, Leases; and ASU No. 2018-11, Targeted Improvements. The new standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

The new standard is effective for us on January 1, 2019, with early adoption permitted. We expect to adopt the new standard on its effective date. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the consolidated financial statements as its date of initial application. If an entity chooses the second option, the transition requirements for existing leases also apply to leases entered into between the date of initial application and the effective date. The entity must also recast its comparative period consolidated financial statements and provide the disclosures required by the new standard for the comparative periods. We expect to adopt the new standard on January 1, 2019 and use the effective date as our date of initial application. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019.

The new standard provides a number of optional practical expedients in transition. We expect to elect the 'package of practical expedients', which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. We do not expect to elect the use-of-hindsight or the practical expedient pertaining to land easements; the latter not being applicable to us.

We expect that this standard will have a material effect on our consolidated financial statements. While we continue to assess all of the effects of adoption, we currently believe the most significant effects relate to (1) the recognition of new ROU assets and lease liabilities on our balance sheet for our office and warehouse facility operating leases, and (2) providing significant new disclosures about our leasing activities.

The new standard also provides practical expedients for an entity's ongoing accounting. We currently expect to elect the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, we will not recognize ROU assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. We also currently expect to elect the practical expedient to not separate lease and non-lease components for all of our leases.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, to simplify the subsequent measurement of goodwill. The new guidance eliminates the requirement for an entity to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, an entity will perform its annual, or interim, goodwill impairment testing by comparing the fair value of a reporting unit with its carrying amount and recording an impairment charge for the amount by which the carrying amount exceeds the fair value. We early adopted this guidance in conjunction with our interim impairment testing performed during the quarter ended June 30, 2018.

There have been no changes in our significant accounting policies from those contained in our Annual Report on Form 10-K for the year ended December 31, 2017.

#### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis describes results of operations and material changes in the financial condition of Owens & Minor, Inc. and its subsidiaries since December 31, 2017. Trends of a material nature are discussed to the

extent known and considered relevant. This discussion should be read in conjunction with the consolidated financial statements, related notes thereto, and management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Overview

28

---

Owens & Minor, Inc., along with its subsidiaries, (we, us, or our) is a leading global healthcare services company that connects the world of medical products to the point of care. Recently, we have made certain changes to the leadership team, organizational structure, budgeting and financial reporting processes which drive changes to segment reporting. These changes align our operations into two distinct business units: Global Solutions and Global Products. Global Solutions (previously Domestic and International) is our U.S. and European distribution, logistics and value-added services business. Global Products (previously Proprietary Products) provides product-related solutions, including surgical and procedural kitting and sourcing. Beginning with the quarter ended March 31, 2018, we now report financial results using this two segment structure and have recast prior year segment results on the same basis. On April 30, 2018 (the Closing Date), we completed the previously announced acquisition of substantially all of Avanos Medical, Inc.'s (Avanos, previously Halyard Health, Inc.) Surgical and Infection Prevention business, the name "Halyard Health" (and all variations of that name and related intellectual property rights) and its IT system in exchange for \$758 million, net of cash acquired, which is subject to further working capital adjustments. The Halyard business is a leading global provider of medical supplies and solutions for the prevention of healthcare associated infections across acute care and non-acute care markets. This business is reported as part of the Global Products segment.

We entered into transition services agreements with Avanos pursuant to which they and we will provide to each other various transitional services, including, but not limited to, facilities, product supply, financial and business services, procurement, human resources, research and development, regulatory affairs and quality assurance, sales and marketing, information technology and other support services. On the Closing Date, certain of our affiliates also entered into transitional distribution agreements with affiliates of Avanos under which the Avanos affiliates will serve as limited risk distributors for our international customer orders on a transitional basis. The services under the transition services agreements and distribution agreements generally commenced on the Closing Date and terminate within 18 months thereafter.

Financial highlights. The following table provides a reconciliation of reported operating income, net income and net income per diluted common share to non-GAAP measures used by management.

	Three Months		Nine Months Ended	
	Ended September 30, 2018	2017	2018	2017
(Dollars in thousands except per share data)				
Operating income (loss), as reported (GAAP)	\$21,357	\$29,671	\$(126,476)	\$98,024
Acquisition-related intangible amortization <sup>(1)</sup>	10,366	5,071	26,147	9,737
Goodwill and intangible asset impairment charges <sup>(2)</sup>	—	—	165,447	—
Acquisition-related and exit and realignment charges <sup>(3)</sup>	7,727	9,299	47,416	21,134
Fair value adjustments related to purchase accounting <sup>(4)</sup>	9,029	—	27,088	—
Other <sup>(5)</sup>	348	4,441	3,439	8,674
Operating income, adjusted (non-GAAP) (Adjusted Operating Income)	\$48,827	\$48,482	\$143,061	\$137,569
Net income (loss), as reported (GAAP)	\$(565)	\$10,871	\$(175,191)	\$49,796
Acquisition-related intangible amortization <sup>(1)</sup>	10,366	5,071	26,147	9,737
Income tax expense (benefit) <sup>(6)</sup>	(2,209)	(1,601)	(6,284)	(2,993)
Goodwill and intangible asset impairment charges <sup>(2)</sup>	—	—	165,447	—
Income tax expense (benefit) <sup>(6)</sup>	—	—	(2,060)	—
Acquisition-related and exit and realignment charges <sup>(3)</sup>	7,727	9,299	47,416	21,134
Income tax expense (benefit) <sup>(6)</sup>	(1,575)	(2,854)	(11,843)	(7,367)
Fair value adjustments related to purchase accounting <sup>(4)</sup>	9,029	—	27,088	—
Income tax expense (benefit) <sup>(6)</sup>	(1,922)	—	(6,872)	—
Other <sup>(5)</sup>	348	4,441	3,439	8,674
Income tax expense (benefit) <sup>(6)</sup>	(85)	(973)	(558)	(2,465)
Tax adjustments <sup>(7)</sup>	(1,596)	—	(1,596)	—
Net income, adjusted (non-GAAP) (Adjusted Net Income)	\$19,518	\$24,254	\$65,133	\$76,516
Net income (loss) per diluted common share, as reported (GAAP)	\$(0.01)	\$0.18	\$(2.92)	\$0.82
Acquisition-related intangible amortization, per diluted common share <sup>(1)</sup>	0.14	0.06	0.32	0.11
Goodwill and intangible asset impairment charges <sup>(2)</sup>	—	—	2.73	—
Acquisition-related and exit and realignment charges, per diluted common share <sup>(3)</sup>	0.10	0.11	0.58	0.23
Fair value adjustments related to purchase accounting <sup>(4)</sup>	0.11	—	0.33	—
Other, per diluted common share <sup>(5)</sup>	—	0.05	0.04	0.10
Tax adjustments <sup>(7)</sup>	(0.02)	—	(0.02)	—
Net income per diluted common share, adjusted (non-GAAP) (Adjusted EPS)	\$0.32	\$0.40	\$1.06	\$1.26

Net income (loss) per diluted share was \$(0.01) and \$(2.92) for the three and nine months ended September 30, 2018 compared to \$0.18 and \$0.82 in the same periods of 2017. Adjusted EPS (non-GAAP) was \$0.32 and \$1.06 for the three and nine months ended September 30, 2018, compared to \$0.40 and \$1.26 in the prior year. Global Solutions segment operating income was \$24.2 million in the quarter and \$84.7 million year-to-date, representing declines of \$13.4 million and \$22.9 million from the comparative prior year periods. The declines were a result of continued pressure on provider margins and warehouse inefficiencies in certain of our facilities which were partially offset by positive contributions from Byram Healthcare (acquired in August 2017). Global Products operating income was \$27.6 million for the quarter (increased \$17.1 million from 2017) and was \$61.4 million for the year-to-date (increased \$31.2 million). The increases were a result of the contributions from Halyard (acquired April 30, 2018).





### Use of Non-GAAP Measures

Adjusted operating income, adjusted net income and adjusted EPS are an alternative view of performance used by management, and we believe that investors' understanding of our performance is enhanced by disclosing these performance measures. In general, the measures exclude items and charges that (i) management does not believe reflect our core business and relate more to strategic, multi-year corporate activities; or (ii) relate to activities or actions that may have occurred over multiple or in prior periods without predictable trends. Management uses these non-GAAP financial measures internally to evaluate our performance, evaluate the balance sheet, engage in financial and operational planning and determine incentive compensation.

Management provides these non-GAAP financial measures to investors as supplemental metrics to assist readers in assessing the effects of items and events on our financial and operating results and in comparing our performance to that of our competitors. However, the non-GAAP financial measures used by us may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies.

The non-GAAP financial measures disclosed by us should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and the financial results calculated in accordance with GAAP and reconciliations to those financial statements set forth above should be carefully evaluated.

The following items have been excluded in our non-GAAP financial measures:

- (1) Acquisition-related intangible amortization includes amortization of certain intangible assets established during purchase accounting for business combinations. These amounts are highly dependent on the size and frequency of acquisitions and are being excluded to allow for a more consistent comparison with forecasted, current and historical results and the results of our peers.
- (2) Goodwill and intangible assets impairment charges included in our Global Products segment were \$149 million and \$16.5 million, respectively. The charges resulted from our second quarter goodwill and intangible asset impairment testing performed as a result of lower than projected financial results of certain reporting units due to customer losses and operational inefficiencies, which have caused us to revise our expectations with regard to future performance and a decline in market capitalization of the Company.
- (3) Acquisition-related charges, pre-tax, were \$5.7 million and \$41.0 million for the three and nine months ended September 30, 2018, compared to \$4.3 million and \$6.3 million for the same period of 2017. Acquisition related expenses in 2018 consist primarily of transition and transaction costs for the Halyard S&IP acquisition. Expenses in 2017 consisted of transaction costs for the Byram and Halyard acquisitions. Exit and realignment charges, pre-tax, were \$2.0 million and \$6.4 million for the three and nine months ended September 30, 2018. Amounts in 2018 were associated with establishment of our client engagement centers. Exit and realignment charges were \$5.0 million and \$14.8 million for the three and nine months ended September 30, 2017. Charges in 2017 were associated with severance from the reduction in force and other employee costs associated with the establishment of our new client engagement centers, the write-down of information system assets no longer used and other IT restructuring charges.
- (4) The second and third quarters of 2018 include an incremental charge to cost of goods sold from purchase accounting impacts related to the sale of acquired inventory that was written up to fair value in connection with the Halyard acquisition.
- (5) Software as a Service (SaaS) implementation costs associated with significant global IT platforms in connection with the redesign of our global information system strategy.
- (6) These charges have been tax effected in the preceding table by determining the income tax rate depending on the amount of charges incurred in different tax jurisdictions and the deductibility of those charges for income tax purposes.
- (7) Includes tax adjustments primarily associated with the estimated benefits under the Tax Cuts and Jobs Act.



## Results of Operations

## Net revenue.

	Three Months Ended September 30,		Change	
(Dollars in thousands)	2018	2017	\$	%
Global Solutions	\$2,243,782	\$2,290,804	\$(47,022)	(2.1)%
Global Products	349,895	124,542	225,353	180.9%
Inter-segment	(128,800)	(81,385)	(47,415)	58.3%
Net revenue	\$2,464,877	\$2,333,961	\$130,916	5.6%
	Nine Months Ended September 30,		Change	
(Dollars in thousands)	2018	2017	\$	%
Global Solutions	\$6,875,077	\$6,806,126	\$68,951	1.0%
Global Products	750,770	392,654	358,116	91.2%
Inter-segment	(330,120)	(270,339)	(59,781)	22.1%
Net revenue	\$7,295,727	\$6,928,441	\$367,286	5.3%

Consolidated net revenue increased primarily as a result of the acquisitions of Byram in August 2017, which contributed revenue of \$141.5 million and \$387.3 million to Global Solutions in the quarter and year-to-date and Halyard on April 30, 2018, which contributed revenue of \$239.6 million and \$407.6 to Global Products in the quarter and year-to-date. The changes from prior year also included an unfavorable impact from foreign exchange of \$0.9 million for the quarter and a favorable impact of \$23.6 million for the year-to-date period, offset by reduced revenues from lost customers.

## Cost of goods sold.

	Three Months Ended September 30,		Change	
(Dollars in thousands)	2018	2017	\$	%
Cost of goods sold	\$2,112,303	\$2,032,019	\$80,284	4.0%
	Nine Months Ended September 30,		Change	
(Dollars in thousands)	2018	2017	\$	%
Cost of goods sold	\$6,293,474	\$6,071,787	\$221,687	3.7%

Cost of goods sold includes the cost of the product (net of supplier incentives and cash discounts) and all costs incurred for shipments of products from manufacturers to our distribution centers for all customer arrangements where we are the primary obligor and bear risk of general and physical inventory loss. These are sometimes referred to as distribution or buy/sell contracts. Cost of goods sold also includes direct and certain indirect labor, material and overhead costs associated with our Global Products business. There is no cost of goods sold associated with our fee-for-service arrangements. Cost of goods sold compared to prior year reflects changes in sales activity, including sales mix within our products and distribution businesses.

## Gross margin.

	Three Months Ended September 30,		Change	
(Dollars in thousands)	2018	2017	\$	%
Gross margin	\$352,574	\$301,942	\$50,632	16.8%
As a % of net revenue	14.30	% 12.94	%	

Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-Q

	Nine Months Ended September 30,		Change	
(Dollars in thousands)	2018	2017	\$	%
Gross margin	\$1,002,253	\$856,654	\$145,599	17.0%
As a % of net revenue	13.74	% 12.36		%

Gross margin in the third quarter and nine months ended September 30, 2018 included positive contributions from Byram and Halyard, an unfavorable impact from foreign exchange of \$0.5 million for the quarter and a favorable impact of \$14.9 million for the year-to-date period, offset by a decline in provider margin compared to the prior year. With increasing customer cost pressures and competitive dynamics in healthcare, we believe the current trend of increased provider margin pressure will continue. Gross margin was also negatively affected by an increase in LIFO provision of \$6.6 million in the quarter and \$13.5 million year to date compared to 2017.

Operating expenses.

	Three Months Ended September 30,		Change	
(Dollars in thousands)	2018	2017	\$	%
Distribution, selling and administrative expenses	\$325,012	\$261,045	\$63,967	24.5%
As a % of net revenue	13.19	% 11.18		%
Other operating (income) expense, net	\$(1,522)	\$1,927	\$(3,449)	(179.0)%

	Nine Months Ended September 30,		Change	
(Dollars in thousands)	2018	2017	\$	%
Distribution, selling and administrative expenses	\$918,147	\$735,353	\$182,794	24.9%
As a % of net revenue	12.58	% 10.61		%
Other operating (income) expense, net	\$(2,281)	\$2,143	\$(4,424)	(206.4)%

Distribution, selling and administrative (DS&A) expenses include labor and warehousing costs associated with our distribution and logistics services and all costs associated with our fee-for-service arrangements. Shipping and handling costs are primarily included in DS&A expenses and include costs to store, move, and prepare products for shipment, as well as costs to deliver products to customers.

Excluding Byram and Halyard, DS&A expenses for the three and nine months ended September 30, 2018 were 12.00% and 11.55% of net revenues. Overall DS&A expenses compared to prior year reflected higher warehouse and delivery expenses and increased expenses incurred for the development of new customer solutions, as well as a favorable foreign currency translation impact of \$1.6 million for the quarter and an unfavorable impact of \$14.8 million for the year-to-date period. The quarter and year-to-date changes in other operating (income) expense, net was attributed primarily to lower software as a service implementation expenses and higher foreign currency transaction gains compared to prior year. A discussion of the goodwill and intangible asset impairment charges and acquisition-related and exit and realignment charges is included above in the Overview section.

Interest expense, net.

	Three Months Ended September 30,		Change	
(Dollars in thousands)	2018	2017	\$	%
Interest expense, net	\$23,826	\$8,737	\$15,089	172.7%
Effective interest rate	5.65	% 4.15		%

	Nine Months Ended September 30,		Change	
(Dollars in thousands)	2018	2017	\$	%
Interest expense, net	\$52,651	\$22,218	\$30,433	137.0%
Effective interest rate	5.08	% 4.52		%

Interest expense in the third quarter and year-to-date 2018 was higher than prior year as a result of borrowings under our revolving credit facility and new term loans. See Note 9 in Notes to Consolidated Financial Statements.



## Income taxes.

(Dollars in thousands)	Three Months Ended		Change	
	September 30,			
	2018	2017	\$	%
Income tax provision (benefit)	\$(1,904)	\$10,063	\$(11,967)	(118.9)%
Effective tax rate	77.1	% 48.1	%	

(Dollars in thousands)	Nine Months Ended		Change	
	September 30,			
	2018	2017	\$	%
Income tax provision (benefit)	\$(3,936)	\$26,010	\$(29,946)	(115.1)%
Effective tax rate	2.2	% 34.3	%	

The change in the effective tax rate compared to 2017 resulted primarily from losses in jurisdictions with full valuation allowances, and discrete items related to tax reform and the release of certain reserves for uncertain tax positions. On a year-to-date basis, the rate was also affected by the goodwill and intangible asset impairment charges in the second quarter which were not deductible for income tax purposes.

## Financial Condition, Liquidity and Capital Resources

**Financial condition.** We monitor operating working capital through days sales outstanding (DSO) and merchandise inventory turnover. We estimate a hypothetical increase (decrease) in DSO of one day would result in a decrease (increase) in our cash balances, an increase (decrease) in borrowings against our revolving credit facility, or a combination thereof of approximately \$27 million.

The majority of our cash and cash equivalents are held in cash depository accounts with major banks or invested in high-quality, short-term liquid investments. Changes in our working capital can vary in the normal course of business based upon the timing of inventory purchases, collection of accounts receivable, and payment to suppliers. Changes in shipping terms with certain of our suppliers have contributed to increased inventory and accounts payable and had an unfavorable impact on inventory turnover. Changes in DSO and inventory turnover since December 31, 2017 are also affected by the recent Halyard acquisition.

(Dollars in thousands)	September 30, December		Change	
	2018	31, 2017	\$	%
Cash and cash equivalents	\$ 124,890	\$ 104,522	\$ 20,368	19.5%
Accounts receivable, net of allowances	\$ 870,187	\$ 758,936	\$ 111,251	14.7%
Consolidated DSO <sup>(1)</sup>	31.1	28.7		
Merchandise inventories	\$ 1,203,838	\$ 990,193	\$ 213,645	21.6%
Consolidated inventory turnover <sup>(2)</sup>	6.9	8.5		
Accounts payable	\$ 1,107,541	\$ 947,572	\$ 159,969	16.9%

(1) Based on period end accounts receivable and net revenue for the quarter

(2) Based on average annual inventory and annualized cost of goods sold for the quarter ended September 30, 2018 and year ended December 31, 2017

Liquidity and capital expenditures. The following table summarizes our consolidated statements of cash flows for the nine months ended September 30, 2018 and 2017:

(Dollars in thousands)	2018	2017
Net cash provided by (used for):		
Operating activities	\$122,509	\$5,645
Investing activities	(798,881 )	(403,578 )
Financing activities	695,166	305,723
Effect of exchange rate changes	1,574	5,137
Increase (decrease) in cash and cash equivalents	\$20,368	\$(87,073)

Cash provided by operating activities was \$122.5 million in the first nine months of 2018, compared to \$5.6 million in the same period of 2017. The increase in cash from operating activities for the first nine months of 2018 compared to the same period in 2017 was primarily due to favorable changes in working capital.

Cash used for investing activities was \$798.9 million in the first nine months of 2018, compared to \$403.6 million in the same period of 2017. Investing activities in 2018 and 2017 relate to capital expenditures for our strategic and operational efficiency initiatives, particularly initiatives relating to information technology enhancements and optimizing our distribution network. Cash used for investing activities in 2018 also includes the Halyard acquisition for \$758 million offset by the final purchase price settlement with the seller of Byram for \$6.2 million.

Cash provided by financing activities in the first nine months of 2018 was \$695.2 million, compared to \$305.7 million in the same period of 2017. During the first nine months of 2018, we paid dividends of \$32.2 million (compared to \$47.3 million in 2017), and borrowed a net \$695.8 million in term loans as a part of our amended credit agreement and \$74.8 million under our revolving credit facility primarily to fund the Halyard acquisition. In 2017, we entered into a \$250 million term loan and borrowed \$117.2 million on the revolving credit facility primarily for the Byram acquisition.

Capital resources. Our sources of liquidity include cash and cash equivalents and a revolving credit facility under our Credit Agreement with Wells Fargo Bank, N.A., JPMorgan Chase Bank, N.A., Bank of America, N.A. and a syndicate of financial institutions (the Credit Agreement). In connection with the Halyard acquisition, we amended our Credit Agreement to include, among others things, an additional \$195.8 million Term A-2 loan and \$500 million Term B loan. The revolving credit facility and Term A loans mature in July 2022 and the Term B loan matures in October 2025. Our Credit Agreement now includes collateral for the benefit of the Secured Parties (as defined), first priority liens and security interests in (a) all present and future shares of capital stock owned by the Credit Parties (as defined) in the Credit Parties' present and future subsidiaries (limited, in the case of controlled foreign corporations, to a pledge of 65% of the voting capital stock of each first-tier foreign subsidiary of each Credit Party) and (b) all present and future personal property and assets of the Credit Parties, subject to certain exceptions. Our Credit Agreement has a "springing maturity date" with respect to the revolving loans and the term A loans and the term B loans, if as of the date that is 91 days prior to the maturity date of the Company's 2021 Notes or the 2024 Notes, respectively, all outstanding amounts owing under the 2021 Notes or the 2024 Notes, respectively, have not been paid in full then the Termination Date (as defined in the Credit Agreement) of the revolving loans, term A loans and term B loans shall be the date that is 91 days prior to the maturity date of the 2021 Notes.

We make principal payments under the term loans on a quarterly basis with the remaining outstanding principal due upon maturity. Under the Credit Agreement, we have the ability to request two one-year extensions and to request an increase in aggregate commitments by up to \$200 million. The interest rate on our revolving credit facility and Term A loans, which is subject to adjustment quarterly, is based on the Eurocurrency Rate, the Federal Funds Rate or the Prime Rate, plus an adjustment based on the better of our credit ratings or debt to EBITDA ratio as defined by the Credit Agreement. Our Term B loan pays interest based on the Eurocurrency Rate, the Federal Funds Rate or the Prime Rate, plus interest rate margin of 3.50% per annum with respect to Base Rate Loans (as defined in the Credit Agreement), and 4.50% per annum with respect to Eurocurrency Rate Loans (as defined in the Credit Agreement). We are charged a commitment fee of between 12.5 and 25.0 basis points on the unused portion of the facility. The terms of the Credit Agreement limit the amount of indebtedness that we may incur and require us to maintain ratios for leverage and interest coverage, including on a pro forma basis in the event of an acquisition. Based on our Credit Spread, the interest rate under the credit facility at September 30, 2018 is Eurocurrency Rate plus 2.00%.

At September 30, 2018, we had borrowings of \$179.4 million under the revolver and letters of credit of approximately \$13.9 million outstanding under the Credit Agreement, leaving \$406.7 million available for borrowing. We also had letters of credit outstanding for \$6.4 million as of September 30, 2018 and \$1.3 million as of December 31, 2017, which supports certain facilities leased in the United States and Europe.

35

---



We have \$275 million of 3.875% senior notes due 2021 (the “2021 Notes”) and \$275 million of 4.375% senior notes due 2024 (the “2024 Notes”). The 2021 Notes were sold at 99.5% of the principal amount with an effective yield of 3.951%. The 2024 Notes were sold at 99.6% of the principal amount with an effective yield of 4.422%. Interest on the 2021 Notes and 2024 Notes is payable semiannually in arrears, which commenced on March 15, 2015 and December 15, 2014, respectively. We have the option to redeem the 2021 Notes and 2024 Notes in part or in whole prior to maturity at a redemption price equal to the greater of 100% of the principal amount or the present value of the remaining scheduled payments discounted at the Treasury Rate plus 30 basis points.

In the third quarter of 2018, we accrued quarterly cash dividends on our outstanding common stock at the rate of \$0.26 per share (paid on October 1, 2018), which represents a 1% increase over the rate of \$0.2575 per share in the third quarter of 2017. The payment of future dividends is at the discretion of the Board of Directors and depends upon our results of operations, financial condition, capital requirements and other factors.

In October 2016, the Board of Directors authorized a share repurchase program of up to \$100 million of our outstanding common stock to be executed at the discretion of management over a three-year period, expiring in December 2019. The program is intended to offset shares issued in conjunction with our stock incentive plan and return capital to shareholders, and may be suspended or discontinued at any time. We did not purchase any shares in 2018. At September 30, 2018, the remaining amount authorized for repurchase under this program was \$94.0 million. We believe available financing sources, including cash generated by operating activities and borrowings under the Amended Credit Agreement, will be sufficient to fund our working capital needs, capital expenditures, long-term strategic growth, payments under long-term debt and lease arrangements, payments of quarterly cash dividends, share repurchases and other cash requirements. While we believe that we will have the ability to meet our financing needs in the foreseeable future, changes in economic conditions may impact (i) the ability of financial institutions to meet their contractual commitments to us, (ii) the ability of our customers and suppliers to meet their obligations to us or (iii) our cost of borrowing.

We earn a portion of our operating income in foreign jurisdictions outside the United States. Prior to the reporting period in which the Tax Cuts and Jobs Act (the Act) was enacted we considered foreign earnings to be indefinitely reinvested and provided no United States federal and state taxes or withholding taxes on those earnings. Our cash, cash equivalents, short-term investments, and marketable securities held by our foreign subsidiaries totaled \$100.3 million and \$79.1 million at September 30, 2018 and December 31, 2017. Upon enactment, the Act imposed a tax on our total post-1986 foreign earnings at various tax rates. In 2017, the Company recognized a provisional amount of this one-time transition tax. No additional income taxes have been provided for any remaining undistributed foreign earnings not subject to the transition tax, or any additional outside basis difference inherent in these entities, as these amounts continue to be indefinitely reinvested in foreign operations. Determining the amount of unrecognized deferred tax liability related to any remaining undistributed foreign earnings not subject to the transition tax and additional outside basis difference in these entities (i.e., basis difference in excess of that subject to the one-time transition tax) is not practicable. The Company continues to evaluate its foreign earnings repatriation policy in 2018.

#### Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements, see our Annual Report on Form 10-K for the year ended December 31, 2017 and Note 16 in the Notes to Consolidated Financial Statements, included in this Quarterly Report on Form 10-Q for the quarterly period ended on September 30, 2018.

#### Forward-looking Statements

Certain statements in this discussion constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Although we believe our expectations with respect to the forward-looking statements are based upon reasonable assumptions within the bounds of our knowledge of our business and operations, all forward-looking statements involve risks and uncertainties and, as a result, actual results could differ materially from those projected, anticipated or implied by these statements. Such forward-looking statements involve known and unknown risks, including, but not limited to:

- competitive pressures in the marketplace, including intense pricing pressure;
- our ability to retain existing and attract new customers in a market characterized by significant customer consolidation and intense cost-containment initiatives;
- our dependence on sales to certain customers or the loss or material reduction in purchases by key customers;

our dependence on distribution of product of certain suppliers;

36

---

our ability to successfully identify, manage or integrate acquisitions, including our ability to successfully integrate the S&IP business into our operations and to realize the anticipated benefits and synergies from the S&IP acquisition;

our ability to successfully manage our international operations, including risks associated with changes in international trade regulations, foreign currency volatility, changes in regulatory conditions, deteriorating economic conditions, adverse tax consequences, and other risks of operating in international markets;

uncertainties related to and our ability to adapt to changes in government regulations, including healthcare laws and regulations (including the Affordable Care Act);

risks arising from possible violations of legal, regulatory or licensing requirements of the markets in which we operate;

uncertainties related to general economic, regulatory and business conditions;

our ability to successfully implement our strategic initiatives;

the availability of and modifications to existing supplier funding programs and our ability to meet the terms to qualify for certain of these programs;

the effect of price volatility in the commodities markets, including fuel price fluctuations, on our operating costs and supplier product prices;

our ability to adapt to changes in product pricing and other terms of purchase by suppliers of product;

- the ability of customers and suppliers to meet financial commitments due to us;

changes in manufacturer preferences between direct sales and wholesale distribution;

changing trends in customer profiles and ordering patterns and our ability to meet customer demand for additional value-added services;

our ability to manage operating expenses and improve operational efficiencies in response to changing customer profiles;

our ability to meet performance targets specified by customer contracts under contractual commitments;

availability of and our ability to access special inventory buying opportunities;

the ability of business partners and financial institutions to perform their contractual responsibilities;

our ability to continue to obtain financing at reasonable rates and to manage financing costs and interest rate risk;

the risk that information systems are interrupted or damaged or fail for any extended period of time, that new information systems are not successfully implemented or integrated, or that there is a data security breach in our information systems;

the risk that a decline in business volume or profitability could result in an impairment of goodwill or other long-lived assets;

our ability to timely or adequately respond to technological advances in the medical supply industry;

the costs associated with and outcome of outstanding and any future litigation, including product and professional liability claims;

adverse changes in U.S. and foreign tax laws and the outcome of outstanding tax contingencies and legislative and tax proposals;

our ability to successfully implement the expense reduction and productivity and efficiency increasing initiatives of our Rapid Business Transformation (RBT);

our ability to continue to comply with the terms and conditions of Byram Healthcare's Corporate Integrity Agreement;

the potentially adverse impact of the United Kingdom's planned withdrawal from the European Union; and

other factors detailed from time to time in the reports we file with the SEC.

We undertake no obligation to update or revise any forward-looking statements, except as required by applicable law.

## Table of Contents

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk from changes in interest rates related to our borrowing under our Credit Agreement. However, we enter into interest rate swap agreements to manage our exposure to interest rate changes. We had \$933.3 million in borrowings under our term loans, \$179.4 million in borrowings under our revolving credit facility and \$13.9 million in letters of credit under the Credit Agreement at September 30, 2018. After considering the effects of interest rate swap agreements entered into during July 2018, we estimate an increase in interest rates of 100 basis points would result in a potential reduction in future pre-tax earnings of approximately \$7 million per year based on our borrowings outstanding at September 30, 2018.

Due to the nature and pricing of our Global Solutions segment distribution services, we are exposed to potential volatility in fuel prices. Our strategies for helping to mitigate our exposure to changing domestic fuel prices has included using trucks with improved fuel efficiency. We benchmark our domestic diesel fuel purchase prices against the U.S. Weekly Retail On-Highway Diesel Prices (benchmark) as quoted by the U.S. Energy Information Administration. The benchmark averaged \$3.15 per gallon in the first nine months of 2018, an increase from \$2.58 per gallon in the first nine months of 2017. Based on our fuel consumption in the first nine months of 2018, we estimate that every 10 cents per gallon increase in the benchmark would reduce our Global Solutions segment operating income by approximately \$0.3 million on an annualized basis.

In the normal course of business, we are exposed to foreign currency translation and transaction risks. Our business transactions outside of the United States are primarily denominated in the Euro, British Pound and Thai Baht. We may use foreign currency forwards, swaps and options, where possible, to manage our risk related to certain foreign currency fluctuations.

We are subject to price risk for our raw materials, the most significant of which relates to the cost of polypropylene and nitrile used in the manufacturing processes of our Global Products segment. Prices of the commodities underlying these raw materials are volatile and have fluctuated significantly in recent years and in the future may continue to contribute to fluctuations in our results of operations. Our ability to hedge commodity price volatility is limited.

### Item 4. Controls and Procedures

We carried out an evaluation, with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2018. In connection with the Halyard S&IP acquisition, we entered into transition services agreements with Avanos pursuant to which they and we will provide to each other various transitional services, including, but not limited to, facilities, product supply, financial and business services, procurement, human resources, regulatory affairs and quality assurance, sales and marketing, information technology and other support services for a period of up to 18 months after the closing date. Management has established controls to mitigate the risk over financial reporting and will continue to monitor and evaluate the sufficiency of the controls. We are currently evaluating the acquired processes, information technology systems and other components of internal controls over financial reporting as part of the Company's integration activities which may result in periodic changes. Such changes will be disclosed as required by applicable SEC guidance.

In the second quarter of 2018, we acquired the Halyard Surgical & Infection Prevention business. This acquisition represented \$878 million of total assets and \$330 million of revenues (net of intercompany eliminations) as of and for the nine months ended September 30, 2018. Management's evaluation and conclusion as to the effectiveness of the design and operation of the Company's disclosure controls and procedures as of and for the period covered by this report excludes any evaluation of the internal control over financial reporting of this acquisition.

## Part II. Other Information

### Item 1. Legal Proceedings

Certain legal proceedings pending against us are described in our Annual Report on Form 10-K for the year ended December 31, 2017. Through September 30, 2018, there have been no material developments in any legal proceedings reported in such Annual Report.

### Item 1A. Risk Factors

The following description of risk factors includes any material changes to, and supersedes the description of, risk factors associated with the Company's business previously disclosed in Part I, Item 1A of the 2017 Form 10-K, under the heading "Risk Factors." Set forth below are certain risk factors that we currently believe could materially and adversely affect our business, financial condition and results of operations. These risk factors are in addition to those mentioned in other parts of

38

---

## Table of Contents

this report and are not all of the risks that we face. We could also be affected by risks that we currently are not aware of or that we currently do not consider material to our business.

### Risks Related to Our Current Operations

We face competition and accelerating pricing pressure.

The medical/surgical supply distribution industry in the United States is highly competitive and characterized by pricing pressure which accelerated in 2017 and put further margin pressure on our business. We expect this margin pressure to continue. We compete with other national distributors and a number of regional and local distributors, as well as customer self-distribution models and, to a lesser extent, certain third-party logistics companies. Competitive factors within the medical/surgical supply distribution industry include market pricing, total delivered product cost, product availability, the ability to fill and invoice orders accurately, delivery time, range of services provided, efficient product sourcing, inventory management, information technology, electronic commerce capabilities, and the ability to meet customer-specific requirements. Our success is dependent on the ability to compete on the above factors, while managing internal costs and expenses. These competitive pressures could have a material adverse effect on our results of operations.

In addition, in recent years, the healthcare industry in the United States has experienced and continues to experience significant consolidation in response to cost containment legislation and general market pressures to reduce costs. This consolidation of our customers and suppliers generally gives them greater bargaining power to reduce the pricing available to them, which may adversely impact our results of operations and financial condition.

The healthcare third-party logistics business in both the United States and Europe also is characterized by intense competition from a number of international, regional and local companies, including large conventional logistics companies and internet based non-traditional competitors that are moving into the healthcare and pharmaceutical distribution business. This competitive market places continuous pricing pressure on us from customers and manufacturers that could adversely affect our results of operations and financial condition if we are unable to continue to retain and/or grow our revenues and to offset margin reductions caused by pricing pressures through cost control measures.

We have significant concentration in and dependence on Group Purchasing Organizations and certain healthcare provider customers.

In 2017, our top ten customers in the United States represented approximately 23% of our consolidated net revenue. In addition, in 2017, approximately 78% of our consolidated net revenue was from sales to member hospitals under contract with our largest group purchasing organizations (GPO): Vizient, Premier and HPG. We could lose a significant healthcare provider customer or GPO relationship if an existing contract expires without being replaced or is terminated by the customer or GPO prior to its expiration. For example, in April 2016, we announced the loss of our largest IDN customer which had accounted for approximately \$525 million of revenue in 2015. Although the termination of our relationship with a given GPO would not necessarily result in the loss of all of the member hospitals as customers, any such termination of a GPO relationship, or a significant individual healthcare provider customer relationship, could have a material adverse effect on our results of operations and financial condition.

Our operating income are dependent on certain significant domestic suppliers.

In the United States, we distribute products from nearly 1,100 suppliers and are dependent on these suppliers for the continuing supply of products. In 2017, sales of products of our ten largest domestic suppliers accounted for approximately 54% of consolidated net revenue. In the Global Solutions segment, sales of products supplied by Medtronic, Johnson & Johnson and Becton Dickinson accounted for approximately 11%, 9% and 9% of our consolidated net revenue for 2017, respectively. We rely on suppliers to provide agreeable purchasing and delivery terms and performance incentives. Our ability to sustain adequate operating income has been, and will continue to be, dependent upon our ability to obtain favorable terms and incentives from suppliers, as well as suppliers continuing use of third-party distributors to sell and deliver their products. A change in terms by a significant supplier, or the decision of such a supplier to distribute its products directly to healthcare providers rather than through third-party distributors, could have a material adverse effect on our results of operations and financial condition.



## Table of Contents

Our inability to adequately integrate acquisitions could have a material adverse effect on our operations. In connection with our growth strategy, we from time to time acquire other businesses, including recently, Byram Healthcare (Byram) and Halyard Health's S&IP business (S&IP), that we believe will expand or complement our existing businesses and operations. The integration of acquisitions involves a number of significant risks, which may include but are not limited to, the following:

- Expenses and difficulties in the transition and integration of operations and systems;
- Retention of current customers and the ability to obtain new customers;
- The assimilation and retention of personnel, including management personnel, in the acquired businesses;
- Accounting, tax, regulatory and compliance issues that could arise;
- Difficulties in implementing uniform controls, procedures and policies in our acquired companies, or in remediating control deficiencies in acquired companies not formerly subject to the Sarbanes-Oxley Act of 2002;
- Unanticipated expenses incurred or charges to earnings based on unknown circumstances or liabilities;
- Failure to realize the synergies and other benefits we expect from the acquisition at the pace we anticipate;
- General economic conditions in the markets in which the acquired businesses operate; and
- Difficulties encountered in conducting business in markets where we have limited experience and expertise.

If we are unable to successfully complete and integrate our strategic acquisitions in a timely manner, our business, growth strategies and results of operations could be adversely affected.

Our global operations increase the extent of our exposure to the economic, political, currency and other risks of international operations.

Our global operations involve issues and risks, including but not limited to the following, any of which could have an adverse effect on our business and results of operations:

- Lack of familiarity with and expertise in conducting business in foreign markets;
- Foreign currency fluctuations and exchange risk;
- Unexpected changes in foreign regulations or conditions relating to labor, economic or political environment, and social norms or requirements;
- Adverse tax consequences and difficulties in repatriating cash generated or held abroad;
- Local economic environments, such as in the European markets served by both the Global Solutions and Global Products business units, including recession, inflation, indebtedness, currency volatility and competition; and
- Changes in trade protection laws and other laws affecting trade and investment, including import/export regulations in both the United States and foreign countries.

Our operations are also subject to risks of violation of laws that prohibit improper payments to and bribery of government officials and other individuals and organizations. These laws include the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and other similar laws and regulations in foreign jurisdictions, any violation of which could result in substantial liability and a loss of reputation in the marketplace. Failure to comply with these laws also could subject us to civil and criminal penalties that could adversely affect our business and results of operations.

Changing conditions in the United States healthcare industry may impact our results of operations.

We, along with our customers and suppliers, are subject to extensive federal and state regulations relating to healthcare as well as the policies and practices of the private healthcare insurance industry. In recent years, there have been a number of government and private initiatives to reduce healthcare costs and government spending. These changes have included an increased reliance on managed care; reductions in Medicare and Medicaid reimbursement levels; consolidation of competitors, suppliers and customers; a shift in healthcare provider venues from acute care settings to clinics, physician offices and home care; and the development of larger, more sophisticated purchasing groups. All of these changes place additional financial pressure on healthcare provider customers, who in turn seek to reduce the costs and pricing of products and services provided by us. We expect the healthcare industry to continue to change significantly and these potential changes, which may include a reduction in government support of healthcare services, adverse changes in legislation or regulations, and further reductions in healthcare reimbursement practices, could have a material adverse effect on our business, results of operations and financial condition.





Table of Contents

We are subject to stringent regulatory and licensing requirements.

We are required to comply with extensive and complex laws and regulations at the federal, state and local government levels in the United States and other countries where we operate. We also are required to hold permits and licenses and to comply with the operational and security standards of various governmental bodies and agencies. Any failure to comply with these laws and regulations or any failure to maintain the necessary permits, licenses or approvals, or to comply with the required standards, could disrupt our operations and/or adversely affect our results of operations and financial condition.

Among the healthcare related laws that we are subject to include the U.S. federal Anti-kickback Statute, the U.S. federal Stark Law, the False Claims Act and similar state laws relating to fraud, waste and abuse. The requirements of these laws are complex and subject to varying interpretations, and it is possible that regulatory authorities could challenge our policies and practices. If we fail to comply with these laws, we could be subject to federal or state government investigations or qui tam actions (false claims cases initiated by private parties purporting to act on behalf of federal or state governments), which could result in civil or criminal sanctions, including the loss of licenses or the ability to participate in Medicare, Medicaid and other federal and state healthcare programs. Such sanctions and damages could adversely affect our results of operations and financial condition.

Our Byram business is a Medicare-certified supplier and participates in state Medicaid programs. Failure to comply with applicable standards and regulations could result in civil or criminal sanctions, including the loss of our ability to participate in Medicare, Medicaid and other federal and state healthcare programs.

We collect, handle and maintain patient-identifiable health information and other sensitive personal and financial information, which are subject to federal, state and foreign laws that regulate the use and disclosure of such information. Regulations currently in place continue to evolve, and new laws in this area could further restrict our ability to collect, handle and maintain personal or patient information, or could require us to incur additional compliance costs, either of which could have an adverse impact on our results of operations. Violations of federal, state or foreign laws concerning privacy and data protection could subject us to civil or criminal penalties, breach of contract claims, costs for remediation and harm to our reputation.

We may be unable to realize anticipated cost savings and efficiency and productivity gains or may incur additional and/or unexpected costs in order to realize them.

In the first quarter of 2017, we unveiled our Rapid Business Transformation (RBT) process to reduce expenses, increase efficiency and productivity and add significant operating income (to replace lost margin). Throughout 2017, the RBT process identified and implemented initiatives designed to drive better earnings and cash flow through efficiency and productivity gains, expense reduction and diversification of our business. However, our expectations pertaining to run-rate cost savings and efficiency and productivity increases are inherently estimates that are difficult to predict and are necessarily speculative in nature, and we cannot assure you that we will achieve expected or any actual run-rate cost savings or efficiency and productivity gains. A variety of factors could cause us not to realize some or all of the expected run-rate cost savings, including, among others, macroeconomic conditions, regulatory changes, delays in the anticipated timing of activities related to our cost savings programs, lack of sustainability in cost savings over time, unexpected costs associated with operating our business and our ability to achieve the efficiencies contemplated by the cost savings initiative. We may be unable to realize all of these run-rate cost savings within the expected timeframe, or at all, and we may incur additional or unexpected costs in order to realize them.

These cost savings and efficiency and productivity gains are based upon a number of assumptions and estimates that are in turn based on our analysis of the various factors which currently, and could in the future, impact our business.

These assumptions and estimates are inherently uncertain and subject to significant business, operational, economic and competitive uncertainties and contingencies. Certain of the assumptions relate to business decisions that are subject to change, including, among others, our anticipated business strategies, our marketing strategies, our product development and licensing strategies and our ability to anticipate and react to business trends. Other assumptions relate to risks and uncertainties beyond our control, including, among others, the economic environment in which we operate, healthcare regulation and other developments in our industry as well as capital markets conditions from time to time. The actual results of implementing the various cost savings and efficiency and productivity initiatives may differ materially from our estimates. Moreover, our continued efforts to implement these cost savings and efficiency

and productivity initiatives may divert management attention from the rest of our business and may preclude us from seeking attractive opportunities, any of which may materially and adversely affect our business.

41

---

Table of Contents

Compliance with the terms and conditions of Byram's Corporate Integrity Agreement requires significant resources and, if we fail to comply, we could be subject to penalties or excluded from participation in government healthcare programs, which could seriously harm our results of operations, liquidity and financial condition.

Prior to its acquisition by Owens & Minor, Byram entered into a five-year Corporate Integrity Agreement beginning April 2016 with the Office of Inspector General of the United States Department of Health and Human Services ("OIG"). The Corporate Integrity Agreement provides that Byram shall, among other things, establish and maintain a compliance program, including a corporate compliance officer and committee, a code of conduct, comprehensive compliance policies and procedures, training and monitoring, a review process for certain arrangements between Byram and referral sources, a compliance hotline, an open door policy and a disciplinary process for compliance violations. The Corporate Integrity Agreement further provides that Byram shall provide periodic reports to the OIG, complete certain regular certifications and engage an Independent Review Organization to perform reviews of certain arrangements between Byram and referral sources.

Failing to meet the Corporate Integrity Agreement obligations could have material adverse consequences for Byram including monetary penalties for each instance of non-compliance. In addition, in the event of an uncured material breach or deliberate violation of the Corporate Integrity Agreement, we could be excluded from participation in federal healthcare programs, or other significant penalties, which could seriously harm our results of operations, liquidity and financial results.

**Risks Related to our Borrowings and Leverage**

We may not be able to generate sufficient cash to service our debt and other obligations.

As of September 30, 2018, on a consolidated basis we had approximately \$1.7 billion of aggregate principal amount of secured indebtedness as well as approximately \$231 million in obligations under our leasing arrangements and \$407 million of undrawn availability under our credit facilities. Our ratio of total debt to total shareholders' equity as of September 30, 2018 was approximately 208%.

Our ability to make payments on our indebtedness and our other obligations will depend on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure or refinance our indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. We cannot assure you that we would be able to implement any of these alternatives on satisfactory terms or at all. In the absence of such operating results and resources, we could face substantial liquidity problems and may be required to dispose of material assets or operations to meet our debt service and other obligations. We may not be able to consummate those dispositions or to obtain the proceeds that we could realize from them, and these proceeds may not be adequate to meet any debt service obligations then due.

If we are unable to service our debt obligations from cash flows, we may need to refinance all or a portion of our debt obligations prior to maturity. Our ability to refinance or restructure our debt will depend upon the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. We may not be able to refinance any of our indebtedness on commercially reasonable terms or at all.

Despite current indebtedness levels, we may still be able to incur substantially more debt. This could further exacerbate the risks described herein.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future, including secured indebtedness. If additional indebtedness is added to our current debt levels, the related risks that we and our subsidiaries could face to fund our future debt service obligations and the risks associated with failure to adequately service our debt could intensify. Additionally, the incurrence of any new indebtedness could make it more difficult to refinance our existing indebtedness and make it more likely that any refinancing of such indebtedness may not be on

commercially reasonable terms.

Our credit facilities and our existing notes have restrictive covenants that could limit our financial flexibility.

The indentures that govern our existing notes and our credit facilities contain financial and other restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests.

42

---

## Table of Contents

Our credit facilities and the indentures governing our existing notes include restrictions that, among other things, limit our ability to: incur indebtedness; grant liens; engage in mergers, consolidations and liquidations; make asset dispositions, restricted payments and investments; enter into transactions with affiliates; and amend, modify or prepay certain indebtedness. Under our credit facilities, we are subject to financial covenants that require us to maintain ratios for leverage and interest coverage, including on a pro forma basis in the event of an acquisition.

Our credit facilities also contain restrictions on the amount and timing of share repurchase activity. This includes prohibiting share repurchases should a default under the Credit Agreement exist prior to or immediately after any share repurchases. There are also limitations depending upon our leverage ratio prior to any share repurchases or on a pro forma basis.

Our failure to comply with these restrictions or covenants could result in a default under the agreements governing the relevant indebtedness. If a default under the credit facilities and the indentures governing our existing notes is not cured or waived, such default could result in the acceleration of debt or other payment obligations under our debt or other agreements that contain cross-acceleration, cross-default or similar provisions, which could require us to repurchase or pay debt or other obligations prior to the date it is otherwise due.

Our ability to comply with covenants contained in the credit facilities and the indentures governing our existing notes and any other debt or other agreements to which we are or may become a party, may be affected by events beyond our control, including prevailing economic, financial and industry conditions. Even if we are able to comply with all of the applicable covenants, the restrictions on our ability to manage our business in our sole discretion could adversely affect our business by, among other things, limiting our ability to take advantage of financings, mergers, acquisitions and other corporate opportunities that we believe would be beneficial to us.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our indebtedness service obligations to increase significantly.

Borrowings under our Credit Agreement bear interest at variable rates and expose us to interest rate risk. If interest rates were to increase, our debt service obligations on our variable rate indebtedness would increase even though the amount borrowed remained the same, and our earnings and cash flows will correspondingly decrease.

### Risks Related to Our Halyard S&IP Acquisition

We may fail to realize the anticipated benefits of the S&IP Acquisition or those benefits may take longer to realize than expected. We may also encounter significant difficulties in integrating the S&IP business into our operations. Our ability to realize the anticipated benefits and synergies of the S&IP Acquisition will depend, to a large extent, on our ability to integrate the S&IP business into ours. We may devote significant management attention and resources preparing for and then integrating the business practices and operations of the S&IP business with ours. This integration process may be disruptive to our and the S&IP businesses, and, if implemented ineffectively, could restrict realization of the expected benefits. In addition, we may fail to realize some of the anticipated benefits and synergies of the S&IP Acquisition if the integration process takes longer than expected or is more costly than expected. Potential difficulties we may encounter in the integration process include:

- The inability to successfully combine operations in a manner that would result in the anticipated benefits of the S&IP Acquisition in the time frame currently anticipated or at all;
- Complexities associated with managing the expanded operations;
- Integrating personnel;
  - Creation of uniform standards, internal controls, procedures, policies and information systems;
- Unforeseen increased expenses, delays or regulatory issues associated with integrating the operations; and
- Performance shortfalls as a result of the diversion of management attention caused by completing the integration of the operations.

Even if we are able to integrate the S&IP business successfully, this integration may not result in the realization of the full benefits that we currently expect, nor can we give assurances that these benefits will be achieved when expected or at all. Moreover, the integration of the S&IP business may result in unanticipated problems, expenses, liabilities, regulatory risks and competitive responses that could have material adverse consequences.



## Table of Contents

In connection with the S&IP Acquisition, we and Halyard have agreed to indemnify each other with respect to certain matters, and such indemnities may not be adequate.

The Amended and Restated Purchase Agreement contains customary representations, warranties and covenants from both us and Halyard. Subject to certain exceptions and limitations, we and Halyard have agreed to indemnify each other for breaches of representations, warranties, covenants and other specified matters contained in the Amended and Restated Purchase Agreement. Among these other specified matters, Halyard has agreed to indemnify us for losses related to certain pending litigation against the S&IP business, including with respect to the matter styled Bahamas Surgery Center, LLC v. Kimberly-Clark Corporation and Halyard Health, Inc., No. 2:14-cv-08390-DMG-SH (C.D. Cal.), certain previously initiated actions arising out of the same or similar products and any future action, whether known or unknown, that both (i) concerns a product or products of Halyard that is or are the subjects of the actions already identified as being covered and (ii) is based on a claim that is substantially similar to a claim alleged by a plaintiff in the actions already identified as being covered or relates to or arises out of substantially similar facts and circumstances or substantially similar courses of conduct as those alleged in the actions already identified as being covered. We cannot assure you that the indemnity from Halyard will be sufficient to protect us against the full amount of such liabilities, or that Halyard will be able to fully satisfy its indemnification obligations. Moreover, even if we ultimately succeed in recovering from Halyard any amounts for which the S&IP business is held liable, we may be temporarily required to bear these losses ourselves.

Any failure by Halyard or one of its affiliates to deliver the services to be provided under the transition services agreement could have a material adverse effect on our business, financial condition and results of operations.

Pursuant to the terms of the Amended and Restated Purchase Agreement, at the closing of the S&IP acquisition, we and Halyard entered into transition services agreements pursuant to which we, Halyard and each party's respective affiliates will provide to each other various transitional services, including, but not limited to, facilities, product supply, financial and business services, procurement, human resources, research and development, regulatory affairs and quality assurance, sales and marketing, information technology and other support services. At the closing of the S&IP Acquisition, certain of our affiliates also entered into transitional distribution agreements with affiliates of Halyard under which the Halyard affiliates will serve as limited risk distributors for our international customer orders on a transitional basis. If Halyard or its affiliates fail to provide or procure the services prescribed by the transition services agreements or distribution agreements, or fail to provide such services in a consistent and/or timely manner, such failure could have a material adverse effect on our business, financial condition and results of operations. Further, if the transition services agreements or distribution agreements are terminated, we would need to make alternative arrangements for the performance of these services. We may not be able to obtain these services promptly or at reasonable rates, if at all.

The S&IP business is exposed to price fluctuations of key commodities, which may negatively impact our results of operations.

The S&IP business relies on product inputs, such as polypropylene and nitrile, as well as other commodities, in the manufacture of its products. Prices of these commodities are volatile and have fluctuated significantly in recent years, which may contribute to fluctuations in our results of operations. Our ability to hedge commodity price volatility is limited. Furthermore, due to competitive dynamics, we may be unable to pass along commodity-driven cost increases through higher prices. If we cannot fully offset cost increases through other cost reductions, or recover these costs through price increases or surcharges, we could experience lower margins and profitability which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

An inability to obtain key components, raw materials or manufactured products from third parties may have a material adverse effect on the S&IP business.

The S&IP business depends on the availability of various components, raw materials and manufactured products supplied by others for its operations. If the capabilities of suppliers and third-party manufacturers are limited or stopped, due to quality, regulatory or other reasons, that could negatively impact our ability to manufacture or deliver S&IP products and could lead to exposure to regulatory actions. Further, for quality assurance or cost effectiveness,



Halyard has purchased from sole suppliers certain components and raw materials such as polymers used in the S&IP products, and we expect to continue to purchase these components and raw materials from these sole suppliers. Although there are other sources in the market place for these items, we may not be able to quickly establish additional or replacement sources for certain components or materials due to regulations and requirements of the FDA and other regulatory authorities regarding the manufacture of S&IP products. The loss of any sole supplier or any sustained supply interruption that affects the ability to manufacture or deliver S&IP products in a timely or cost effective manner could have a material adverse effect on our business, results of operations, financial condition and cash flows.

## Table of Contents

An interruption in the ability of the S&IP business to manufacture products may have a material adverse effect on our business.

The S&IP business manufactures the majority of its products in five facilities, one each in the United States, Thailand and Honduras and two in Mexico. If one or more of these facilities experience damage, or if these manufacturing capabilities are otherwise limited or stopped due to quality, regulatory or other reasons, including natural disasters, prolonged power or equipment failures, labor disputes or unsuccessful imports/exports of products as well as supply chain transportation disruptions, it may not be possible to timely manufacture the relevant products at previous levels or at all. A reduction or interruption in any of these manufacturing processes could have a material adverse effect on our business, results of operations, financial condition and cash flows.

The S&IP business must obtain clearance or approval from the appropriate regulatory authorities prior to introducing a new product or a modification to an existing product. The regulatory clearance process may result in substantial costs, delays and limitations on the types and uses of products the S&IP business can bring to market, any of which could have a material adverse effect on the S&IP business.

In the United States, before the S&IP business can market a new product, or a new use of, or claim for, or significant modification to, an existing product, the S&IP business generally must first receive clearance or approval from the U.S. Food and Drug Administration and certain other regulatory authorities. Most major markets for medical products outside the United States also require clearance, approval or compliance with certain standards before a product can be commercially marketed. The process of obtaining regulatory clearances and approvals to market a medical product can be costly and time consuming, involve rigorous pre-clinical and clinical testing, require changes in products or result in limitations on the indicated uses of products. We cannot assure you that these clearances and approvals will be granted on a timely basis, or at all. In addition, once a medical product has been cleared or approved, a new clearance or approval may be required before it may be modified, its labeling changed or marketed for a different use. Medical products are cleared or approved for one or more specific intended uses and promoting a device for an off-label use could result in government enforcement action. Furthermore, a product approval or clearance can be withdrawn or limited due to unforeseen problems with the medical product or issues relating to its application. The regulatory clearance and approval process may result in, among other things, delayed, if at all, realization of product net sales, substantial additional costs and limitations on the types of products the S&IP business may bring to market or their indicated uses, any one of which could have a material adverse effect on our results of operations, financial condition and cash flows.

The S&IP business may incur product liability losses, litigation liability, product recalls, safety alerts or regulatory action associated with the S&IP business's products which can be costly and disruptive to the S&IP business.

The risk of product liability claims is inherent in the design, manufacture and marketing of the medical products of the type the S&IP business produces and sells. A number of factors could result in an unsafe condition or injury to, or death of, a patient with respect to the products that the S&IP business manufactures or sells, including physician technique and experience in performing the relevant surgical procedure, component failures, manufacturing flaws, design defects or inadequate disclosure of product-related risks or information.

In addition to product liability claims and litigation, an unsafe condition or injury to, or death of, a patient associated with our products could lead to a recall of, or issuance of a safety alert relating to, our products, or suspension or delay of regulatory product approvals or clearances, product seizures or detentions, governmental investigations, civil or criminal sanctions or injunctions to halt manufacturing and distribution of our products. Any one of these could result in significant costs and negative publicity resulting in reduced market acceptance and demand for the S&IP business's products and harm its reputation. In addition, a recall or injunction affecting the S&IP business's products could temporarily shut down production lines or place products on a shipping hold.

All of the foregoing types of legal proceedings and regulatory actions are inherently unpredictable and, regardless of the outcome, could disrupt the S&IP business, result in substantial costs or the diversion of management attention and could have a material adverse effect on the S&IP business's results of operations, financial condition and cash flows.

## Other Risks Related to Our Business

Products we source, assemble and sell may be subject to recalls and product liability claims.

Certain of the products that we sell and distribute are sourced and sold under one or more private labels or are assembled by us into custom trays and minor procedure kits. If these products do not function as designed, are inappropriately

45

---

Table of Contents

designed or are not properly produced, we may have to withdraw such products from the market and/or be subject to product liability claims. Although we maintain insurance against product liability and defense costs in amounts believed to be reasonable, we cannot assure you that we can successfully defend any such claims or that the insurance we carry will be sufficient. A successful claim against us in excess of insurance coverage could have a material adverse impact on our business, financial condition and results of operations.

General economic conditions may adversely affect demand for our products and services.

Poor or deteriorating economic conditions in the United States and the other countries in which we conduct business could adversely affect the demand for healthcare services and consequently, the demand for our products and services. Poor economic conditions also could lead our suppliers to offer less favorable terms of purchase to distributors, which would negatively affect our profitability. These and other possible consequences of financial and economic decline could have a material adverse effect on our business, results of operations and financial condition.

Our results of operations may suffer upon the bankruptcy, insolvency, or other credit failure of a customer that has a substantial amount owed to us.

We provide credit in the normal course of business to customers. We perform initial and ongoing credit evaluations of customers and maintain reserves for credit losses. The bankruptcy, insolvency or other credit failure of one or more customers with substantial balances due to us could have a material adverse effect on our results of operations and financial condition.

Our operations depend on the proper functioning of information systems, and our business could be adversely affected if we experience a cyber-attack or other systems breach.

We rely on information systems to receive, process, analyze and manage data in distributing thousands of inventory items to customers from numerous distribution and logistics centers. These systems are also relied upon for billings to and collections from customers, as well as the purchase of and payment for inventory and related transactions from our suppliers. In addition, the success of our long-term growth strategy is dependent upon the ability to continually monitor and upgrade our information systems to provide better service to customers. Our business and results of operations may be materially adversely affected if systems are interrupted or damaged by unforeseen events (including cyber-attacks) or fail to operate for an extended period of time, or if we fail to appropriately enhance our systems to support growth and strategic initiatives.

Our distribution and logistics services include acting as the primary billing, order-to-cash and collections function for many of our customers. These services rely on the performance and upkeep of our information systems. If our information systems are interrupted, damaged or fail to operate, our customers could be negatively impacted which could have a material adverse effect on our results of operations.

We could be subject to adverse changes in the tax laws or challenges to our tax positions.

We operate throughout the United States and other countries. As a result, we are subject to the tax laws and regulations of the United States federal, state and local governments and of various foreign jurisdictions. From time to time, legislative and regulatory initiatives are proposed, including but not limited to proposals to repeal LIFO (last-in, first-out) treatment of inventory in the United States or changes in tax accounting methods for inventory, import tariffs and taxes, or other tax items. In 2017, we recorded a provisional estimate of the impact of The Tax Cuts and Jobs Act (the "Act") based on our initial analysis of the Act. Given the significant complexity of the Act, anticipated guidance from the U. S. Treasury about implementing the Act, and the potential for additional guidance from the Securities and Exchange Commission or the Financial Accounting Standards Board related to the Act, these estimates may be adjusted during 2018. These and other changes in tax laws and regulations could adversely affect our tax positions, tax rate or cash payments for taxes.

Our business and operations depend on the proper functioning of critical facilities and distribution networks.

Damage or disruption to our distribution capabilities due to weather, natural disaster, fire, terrorism, pandemic, strikes, the financial and/or operational instability of key suppliers, geo-political events or other reasons could impair our ability to distribute our products and conduct our business. To the extent that we are unable, or it is not financially feasible, to mitigate the likelihood or potential impact of such events, or to manage effectively such events if they occur, there could be a material adverse effect on our business, financial condition or results of operations.



Table of Contents

Our goodwill may become impaired, which would require us to record a significant charge to earnings in accordance with generally accepted accounting principles.

U.S. GAAP requires us to test our goodwill for impairment on an annual basis, or more frequently if indicators for potential impairment exist. The testing required by GAAP involves estimates and judgments by management. Although we believe our assumptions and estimates are reasonable and appropriate, any changes in key assumptions, including a failure to meet business plans or other unanticipated events and circumstances such as a rise in interest rates, may affect the accuracy or validity of such estimates. We may be required to record a significant charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill is determined, which charge could adversely affect our results of operations.

We operate within the European Union, including in the United Kingdom and therefore may be affected by the United Kingdom's withdrawal from the European Union.

We operate within the European Union (the "E.U."), including the United Kingdom (the "U.K."). On June 23, 2016, the U.K. held a referendum in which voters approved an exit from the E.U., commonly referred to as "Brexit". As a result of the referendum, it is expected that the British government will begin negotiating the terms of the U.K.'s withdrawal from the E.U. A withdrawal could, among other outcomes, disrupt the free movement of goods, services and people between the U.K. and the E.U., and disrupt trade between the U.K. and the E.U. Given the lack of comparable precedent and recent occurrence of these events, we are monitoring the situation but it is unclear what financial, trade and legal implications the withdrawal of the U.K. from the E.U. would have and how such withdrawal may affect our operations or financial performance.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities

In October 2016, our Board of Directors authorized a share repurchase program of up to \$100 million of the company's outstanding common stock to be executed at the discretion of management over a three-year period. The timing of repurchases and the exact number of shares of common stock to be purchased will depend upon market conditions and other factors and may be suspended or discontinued at any time. Purchases under the share repurchase program are made either pursuant to 10b5-1 plans entered into by the company from time to time and/or during the company's scheduled quarterly trading windows for officers and directors. We did not repurchase any shares for the three months ended September 30, 2018.

Item 6. Exhibits

(a) Exhibits

- 2.1 Amended and Restated Purchase Agreement, dated as of April 30, 2018, by and among Halyard Health, Inc., the other sellers party thereto and Owens & Minor, Inc. (incorporated herein by reference to our Current Report on Form 8-K, Exhibit 2.1, dated May 1, 2018)\*
- 3.1 Amended and Restated Bylaws of Owens & Minor, Inc. (incorporated herein by reference to our Current Report on Form 8-K, Exhibit 3.1, dated February 28, 2018)
- 3.2 Amended and Restated Bylaws of Owens & Minor, Inc. (incorporated herein by reference to our Current Report on Form 8-K, Exhibit 3.1, dated May 9, 2018)
- 4.1 Third Supplemental Indenture, dated as of April 30, 2018, by and among Owens & Minor, Inc., the guarantors signatory thereto and U.S. Bank National Association, as trustee. (incorporated herein by reference to our Current Report on Form 8-K, Exhibit 4.1, dated May 4, 2018)\*
- 10.1 Form of Owens & Minor Director Restricted Stock Agreement under the Company's 2018 Stock Incentive Plan (incorporated herein by reference to our Current Report on Form 8-K, Exhibit 10.1, dated May 9, 2018)\*\*
- 10.2 Form of Owens & Minor Restricted Stock Agreement under the Company's 2018 Stock Incentive Plan (incorporated herein by reference to our Current Report on Form 8-K, Exhibit 10.2, dated May 9, 2018)\*\*
- 10.3 Form of Owens & Minor Restricted Stock Unit Agreement under the Company's 2018 Stock Incentive Plan (incorporated herein by reference to our Current Report on Form 8-K, Exhibit 10.3, dated May 9, 2018)\*\*
- 10.4 Owens & Minor, Inc. Officer Severance Policy dated May 7, 2018 (incorporated herein by reference to our Current Report on Form 8-K, Exhibit 10.4, dated May 9, 2018)\*\*
- 10.5 Owens & Minor, Inc. 2018 Stock Incentive Plan (incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed March 26, 2018 (File No. 001-09810))\*\*
- 10.6 First Amendment to Credit Agreement, dated as of March 29, 2018, by and among Owens & Minor Distribution, Inc., Owens & Minor Medical, Inc., Barista Acquisition I, LLC, and Barista Acquisition II, LLC, as Borrowers, Owens & Minor, Inc. and certain of its domestic subsidiaries, as Guarantors, the banks party thereto and Wells Fargo Bank, N.A., as Administrative Agent for the banks party thereto (incorporated herein by reference to our Current Report on Form 8-K, Exhibit 10.1, dated April 18, 2018)
- 10.7 Second Amendment to Credit Agreement, dated as of April 30, 2018, by and among O&M Halyard, Inc., Owens & Minor Distribution, Inc., Owens & Minor Medical, Inc., Barista Acquisition I, LLC and Barista Acquisition II, LLC, Owens & Minor, Inc. and each other domestic subsidiary of the Company party thereto from time to time, Wells Fargo Bank, N.A., as administrative agent for certain of the credit facilities, Bank of America, N.A., as collateral agent and administrative agent for the term B facility, and the other agents party thereto. (incorporated herein by reference to our Current Report on Form 8-K, Exhibit 10.1, dated May 4, 2018)\*

10.8 Security and Pledge Agreement, dated as of April 30, 2018, by and among Owens & Minor, Inc., O&M Halyard, Inc., Owens & Minor Distribution, Inc., Owens & Minor Medical, Inc., Barista Acquisition I, LLC and Barista Acquisition II, LLC, Bank of America, N.A., U.S. Bank National Association, and the other secured parties thereto. (incorporated herein by reference to our Current Report on Form 8-K, Exhibit 10.2, dated May 4, 2018)\*

10.9 Third Amendment to Credit Agreement, dated as of May 9, 2018, by and among O&M Halyard, Inc., Owens & Minor Distribution, Inc., Owens & Minor Medical, Inc., Barista Acquisition I, LLC and Barista Acquisition II, LLC, Owens & Minor, Inc. and each other domestic subsidiary of the Company party thereto from time to time, Wells Fargo Bank, N.A., as administrative agent for certain of the credit facilities, Bank of America, N.A., as collateral agent and administrative agent for the term B facility, and the other agents party thereto. (incorporated herein by reference to our Form 10-Q, Exhibit 10.9, dated May 10, 2018)\*

10.10 Confidential Executive Separation Agreement and General Release for Rony Kordahi dated August 3, 2018\*\*

48

---



- 10.11 Confidential Executive Separation Agreement and General Release for Richard A. Meier dated August 16, 2018\*\*
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted 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 Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

\* Certain exhibits and schedules been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company hereby undertakes to furnish copies of such omitted materials supplementally upon request by the SEC.

\*\* Management contract or compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Owens & Minor, Inc.  
(Registrant)

Date: November 5, 2018 /s/ Paul C. Phipps  
Paul C. Phipps  
President & Chief Executive Officer

Date: November 5, 2018 /s/ Robert K. Snead  
Robert K. Snead  
Interim Chief Financial Officer

Date: November 5, 2018 /s/ Michael W. Lowry  
Michael W. Lowry  
Senior Vice President, Corporate Controller & Chief Accounting Officer