PATTERSON®
COMPANIES, INC.

2021 Annual Report

INDISPENSABLE PARTNERS

During fiscal 2021 Patterson successfully navigated the historic challenges posed by the COVID-19 pandemic to actively support our customers, our industries and our communities. We also expanded our value proposition for our customers, drove improved financial performance for our shareholders, and strengthened Patterson for the future.

Our financial performance in fiscal 2021 reflected the fundamental strength of the dental and animal health markets, and our enterprise-wide focus to strengthen our core business around sales execution, operational excellence, and working capital improvement. Patterson demonstrated the depth of our comprehensive, value-added offering to our customers, delivered strong top- and bottom-line growth, and enhanced returns for our shareholders.

- Patterson's consistent execution, combined with our investments to drive sales productivity and enhance our value proposition, delivered total company internal sales[1] growth of 8 percent.
- Both business segments achieved strong sales growth while overcoming numerous pandemic-related challenges. Internal sales of our Dental segment increased 10 percent over the prior year and our Animal Health segment grew 8 percent year over year.
- Our sharp focus on expense discipline and margin improvement initiatives resulted in full-year consolidated adjusted operating margin of 4.2 percent.
- Patterson delivered fiscal 2021 GAAP earnings of $1.61 per diluted share and fiscal 2021 adjusted earnings[2] of $1.91 per diluted share, exceeding our fiscal 2020 adjusted EPS by 23.2 percent.
- Our balanced capital allocation strategy prioritizes returning cash to shareholders and Patterson returned $75.2 million to shareholders through quarterly dividends during fiscal 2021.

As COVID-19 significantly impacted our end markets during the year, we effectively responded to the operational and financial challenges posed by the pandemic. We adhered to our guiding principles of protecting employee health and safety, delivering for our customers when they needed us most, and doing our part to help reduce the spread of the virus in our communities. We also made the necessary decisions to properly manage our costs and strengthen our balance sheet to help ensure we would emerge an even stronger Patterson.

Dental

Fiscal 2021 was another strong year for Patterson's Dental business, particularly given the unprecedented disruption within the market. As the dental market transitioned from lockdown to recovery, Patterson's deep value proposition was recognized and rewarded by our customers across all practice models.

- Our consumables growth of 15 percent in fiscal 2021 reflects the continued investments Patterson has made to strengthen our field sales and support teams and expand our product portfolio.
- We also drove momentum in equipment sales as we grew 8 percent in fiscal 2021 over the prior year. Our ability to support our customers throughout the entire life cycle of their equipment and technology investments continues to be an important differentiator for Patterson.

Looking forward, we are confident the dental market presents attractive growth opportunities for Patterson. We expect the increased demand for infection control

[1] The term "internal sales" represents net sales adjusted to exclude foreign currency impact and changes in product selling relationships.
[2] See page 8 of this document for Reconciliation of GAAP to non-GAAP Measures.

products to remain above pre-pandemic levels as dentists embrace this new standard of care. We also believe dentists will continue investing in the latest technologies and software to build and modernize their practices. Finally, we are encouraged by the heightened awareness that oral health has a direct link to a patient's overall health. All these factors give us confidence in the long-term outlook for the dental industry.

Animal Health

Patterson's Animal Health business delivered strong internal sales growth in fiscal 2021, led by growth in our Companion Animal business of 17 percent over the prior year. Our Companion and Production Animal businesses each responded to meet the dynamic needs of our customers, driving improved segment performance in fiscal 2021.

- In our Companion Animal business, the rise in pet ownership during the pandemic drove increased veterinary clinic traffic and pet spending. Our deep relationships with veterinarians positioned us well to support their growth, improve their customer experience and offer home delivery capabilities.
- While pandemic-related end market challenges were more evident in our Production Animal business, our team executed well to drive operational improvements and deliver value to our customers. We responded to supply chain disruption and provided customers with highly specialized service and delivery models to support herd health and preserve the quality of the food supply.

Looking ahead to fiscal 2022, we expect the market fundamentals of increased pet ownership and pet spending will continue as positive drivers in the companion animal market. We also believe the production animal market will recover as restaurants continue to reopen and schools return to in-person learning. Our differentiated value proposition and strong market position give us confidence that our Animal Health segment will contribute sales and profit growth in fiscal 2022.

A bright future

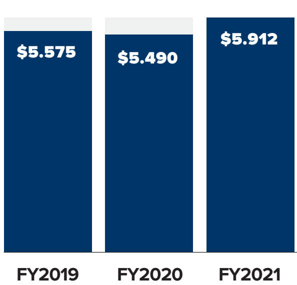
I am incredibly proud of our entire Patterson team and their commitment to our vision of being "an indispensable partner for our customers." I am pleased with the momentum we have built in our business and confident in Patterson's improved competitive position. As we look ahead, we will continue investing in the core areas of our business to drive top- and bottom-line growth and expand our capabilities to support our customers. In addition, our strengthened balance sheet provides us with the flexibility to consider strategic investments that will help accelerate our performance and create additional value for our shareholders.

Thank you for your support and interest in Patterson Companies.

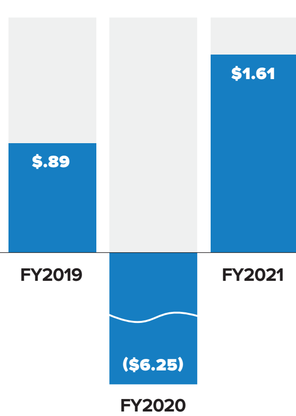
Mark Walchirk
President and Chief Executive Officer

July 30, 2021

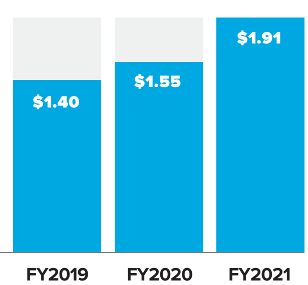
Revenue
Dollars in billions



GAAP EPS
Dollars



Adjusted EPS[2]
Dollars



FY2021 Highlights

- **Internal sales increased 8% vs. FY2020**
- **Adjusted EPS increased 23% over prior year**
- **Adjusted EPS compound annual growth rate of 17% from FY2019 to FY2021**

WE ARE PATTERSON

Indispensable partner serving the dental and animal health

$5.9B
FY2021
TOTAL SALES

$2.3B
FY2021
DENTAL SALES

$3.6B
FY2021
ANIMAL HEALTH SALES

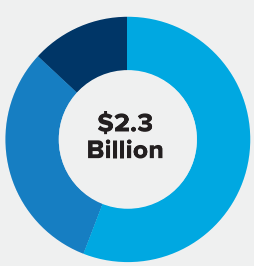
144
YEARS IN BUSINESS

PATTERSON DENTAL

Our Dental segment had a very strong year. Our commitment to offering the right products, services and technology, combined with our extensive local support and the Patterson Technology Center, is valued by dental professionals across all practice models. Even when most dental professionals were forced to shut their doors due to the pandemic, our team was with them every step of the way, providing information and guidance to help them come back stronger than ever.

FY2021 total Dental sales

- Consumable 56%
- Equipment and software 31%
- Value-added services and other 13%



FY2021 key accomplishments

Timely response to customer needs
Including the increased demand for infection control products, our consumable sales grew by 15 percent as we supported our customers in reopening their practices with the right products to keep their staff and patients safe.

Providing the right technology
Our commitment to supporting all dental professionals through offering the latest technology was highlighted by the successful launch of Fuse® – our cloud-based dental practice management software.

Continued support to allow for quick reopening
Our “Reopen. Restore.” Playbook was created as a resource to help dentists successfully reopen their practices, and reinforced our commitment to being a trusted partner.

markets in North America and the United Kingdom

150,000+
CUSTOMERS

7,800
EMPLOYEES

439,000+
PRODUCTS

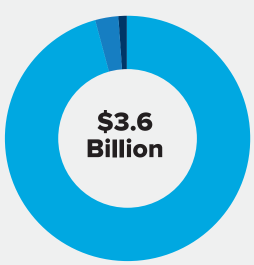
10M+
TOTAL PACKAGES SHIPPED IN FY2021

PATTERSON ANIMAL HEALTH

Our Animal Health segment delivered strong sales growth this past year, aided by the increase in pet ownership which drove increased veterinary traffic and pet spending. Our Production Animal team responded to supply chain disruption to support herd health and preserve the quality of the food supply. Our combination of diverse products, value-added offerings and best-in-class support allowed our companion and production customers to maintain and even grow their business despite the uncertain circumstances.

FY2021 total Animal Health sales

- Consumable 96%
- Equipment and software 3%
- Value-added services and other 1%



FY2021 key accomplishments

Strong revenue growth
Internal sales in our Animal Health segment grew 8 percent over the prior year as a result of our intense focus on sales execution and strategic relationships with key supplier partners.

Continued success with strategic accounts
Our broad product portfolio and strengthened support from our team during the pandemic led to significant wins with new strategic accounts while growing existing account relationships.

Equipment and software sales momentum
Internal sales in our equipment and software category grew 27 percent year over year, driven by our expanded portfolio of products and services and increased demand for new practice builds.

LIVING OUR VALUES

Our dedication to living our **Purpose**, **Vision** and **Values** became more important than ever this past year, as we adjusted to the unforeseen challenges that impacted our industries and our communities. Our values are how we attract, motivate, develop and retain our team, and they are the core of our commitment to our customers, partners and each other. From contributing PPE and other supplies to the communities that we serve, to donating paid time off to team members in need, our employees have truly demonstrated what it means to embrace our values.

PURPOSE

We Are Patterson.

We **Strengthen** the **People** Who Keep **Us** and **Our Animals Healthy.**

VISION

We will be the **most indispensable partner** for **animal** and **oral health professionals, guiding** them with **bold solutions** and a **personal touch.**

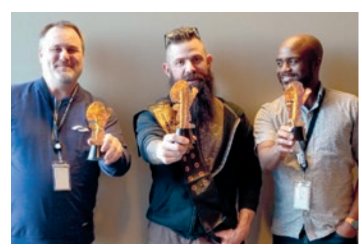
VALUES

We are **PASSIONATE.**

We are **FOCUSED.**

We are **PEOPLE-FIRST.**

We are **ALWAYS ADVANCING.**



We are PASSIONATE

Elaine Tili, a distribution supervisor at our PLSI facility in Kent, Washington, is passionate about serving customers. She says, "Customers put their trust in us, and I am proud to make sure they have the tools and resources to care for patients and their communities."

We are FOCUSED

The Production Animal Operations team in Columbus, Nebraska, stayed focused on fulfilling customers' orders to feedlots, veterinarians and dairies in the High Plains Region, despite the combined impact of spring flooding and the global pandemic.

We are PEOPLE-FIRST

Patterson employees stepped up to help Minneapolis and St. Paul after the civil unrest that took place in the summer of 2020 by volunteering at Holy Trinity Lutheran Church's food and supply distribution, and at a pop-up food shelf.

We are ALWAYS ADVANCING

The commercial development team at the Patterson Technology Center (PTC) converted its in-person *Innovate* events to a virtual format in 2020. During these events, teams collaborated on ideas and projects, and explored innovative solutions to improve our business.

CORPORATE RESPONSIBILITY

At Patterson, we are dedicated to serving our communities by our commitment to corporate responsibility. These initiatives include implementing more environmentally responsible practices, promoting diversity and inclusion, and providing resources and developmental opportunities for team members. Our efforts also include driving continuous improvement across our organization and ensuring strong adherence to proper compliance and governance.

To learn more, see our Corporate Responsibility Report at **https://www.pattersoncompanies.com/who-we-are/default.aspx#section=community**






$1,106,244
PATTERSON FOUNDATION GRANTS GIVEN

198
NONPROFITS SUPPORTED

MORE THAN
$14M
DONATED IN OVER 20 YEARS

$50,206
DONATED TO DOLLARS FOR DOERS

1,113.5
VOLUNTEER HOURS USED

OVER
$168K
PRODUCT VALUE DONATED

43
SCHOLARSHIP RECIPIENTS

$621,734
SCHOLARSHIP DOLLARS

FINANCIAL SUMMARY

(Dollars in thousands, except per share amounts)	Fiscal year ended April 24, 2021	April 25, 2020	April 27, 2019
Net sales	$5,912,066	$5,490,011	$5,574,523
Gross profit	1,203,130	1,197,410	1,190,775
Operating income (loss)	210,607	(572,119)	137,716
Net income (loss) attributable to Patterson Companies, Inc.	155,981	(588,446)	83,628
Diluted earnings (loss) per share attributable to Patterson Companies, Inc.	$ 1.61	$ (6.25)	$ 0.89
Cash and cash equivalents	$ 143,244	$ 77,944	$ 95,646
Working capital	526,263	467,867	728,651
Total assets	2,751,511	2,715,350	3,269,269
Total long-term debt	487,545	587,766	725,341
Stockholders' equity	964,671	836,444	1,480,507

RECONCILIATION OF GAAP TO NON-GAAP MEASURES

The following reconciliation of GAAP to non-GAAP measures table is provided to adjust reported GAAP measures, namely operating income (loss), income (loss) before taxes, income tax expense (benefit), net income (loss), net income (loss) attributable to Patterson Companies, Inc. and diluted earnings (loss) per share attributable to Patterson Companies, Inc., for the impact of deal amortization, integration and business restructuring expenses, legal reserve costs, accelerated debt-related costs, discrete tax matters, investment (gain) loss and goodwill impairment, along with the related tax effects of these items.

Management believes that these non-GAAP measures may provide a helpful representation of the company's full year performance and enable comparison of financial results between periods where certain items may vary independent of business performance. These non-GAAP financial measures are presented solely for informational and comparative purposes and should not be regarded as a replacement for corresponding, similarly captioned, GAAP measures.

The term “internal sales” represents net sales adjusted to exclude the impact of foreign currency and changes in product selling relationships.

(Dollars in thousands, except per share amounts)	Fiscal year ended April 24, 2021	April 25, 2020	April 27, 2019
Net income (loss) attributable to Patterson Companies, Inc. – GAAP	$155,981	$(588,446)	$ 83,628
Deal amortization	28,210	28,208	29,201
Integration and business restructuring expenses	817	11,591	–
Legal reserve costs	–	74,141	20,740
Accelerated debt-related costs	–	7,457	–
Discrete tax matters	–	–	(2,686)
Investment gain	–	(25,983)	–
Goodwill impairment	–	640,627	–
Net income attributable to Patterson Companies, Inc. – non-GAAP	$185,008	$ 147,595	$130,883
Diluted earnings (loss) per share attributable to Patterson Companies, Inc. – GAAP	$ 1.61	$ (6.25)	$ 0.89
Deal amortization	0.29	0.30	0.31
Integration and business restructuring expenses	0.01	0.12	–
Legal reserve costs	–	0.78	0.22
Accelerated debt-related costs	–	0.08	–
Discrete tax matters	–	–	(0.03)
Investment gain	–	(0.27)	–
Goodwill impairment	–	6.74	–
Diluted earnings per share attributable to Patterson Companies, Inc. – non-GAAP*	$ 1.91	$ 1.55	$ 1.40
Operating income (loss) as a % of sales – GAAP	3.6%	(10.4%)	2.5%
Operating income as a % of sales – non-GAAP	4.2%	4.3%	3.7%

*May not sum due to rounding and difference in weighted average shares used to calculate diluted earnings (loss) per share.

Forward-looking statements made in this report are subject to the cautionary statements in the Company's Form 10-K, filed with the Securities and Exchange Commission on June 23, 2021, under the headings “Risk Factors” and “Management's Discussion and Analysis of Financial Condition and Results of Operations.”

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended April 24, 2021

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 No. 0-20572

PATTERSON COMPANIES, INC.

(Exact name of registrant as specified in its charter)

Minnesota	**41-0886515**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1031 Mendota Heights Road
St. Paul, Minnesota 55120
(Address of principal executive offices including Zip Code)

Registrant's telephone number, including area code: (651) 686-1600

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

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common Stock, par value $.01	PDCO	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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 "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐	Non-accelerated filer	☐
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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of voting common equity held by non-affiliates, computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter (October 24, 2020) was approximately $2,590,000,000 (For purposes of this calculation all of the registrant's executive officers and directors are deemed affiliates.)

As of June 16, 2021, there were 96,880,000 shares of Common Stock of the registrant issued and outstanding.

Documents Incorporated By Reference

Portions of the registrant's definitive proxy statement to be filed pursuant to Regulation 14A within 120 days after the registrant's fiscal year-end of April 24, 2021 are incorporated by reference into Part III.

FORM 10-K INDEX

PART I

Item 1. BUSINESS

Forward-Looking Statements

The U.S. Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements to encourage companies to provide prospective information, so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those disclosed in the statement. Certain information of a non-historical nature contained in Items 1, 2, 3 and 7 of this Form 10-K includes “forward-looking statements” within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995, including statements regarding future financial performance, and the objectives and expectations of management. Forward-looking statements often include words such as “believes,” “expects,” “anticipates,” “estimates,” “intends,” “plans,” “seeks” or words of similar meaning, or future or conditional verbs, such as “will,” “should,” “could” or “may.” Forward-looking statements are neither historical facts nor assurances of future performance. Instead, such statements, including, but not limited to, our statements regarding business strategy, growth strategy, competitive strengths, productivity and profitability enhancement, competition, new product and service introductions and liquidity and capital resources, are based only on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions, as well as on assumptions made by and information currently available to management, and involve various risks and uncertainties, some of which are beyond our control.

Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not place undue reliance on any of these forward-looking statements. Any number of factors could affect our actual results and cause such results to differ materially from those contemplated by any forward-looking statements. Reference is made to “Risk Factors” in Item 1A and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of this Form 10-K, for a discussion of certain factors that could cause actual operating results to differ materially from those expressed in any forward-looking statements. In light of these risks and uncertainties, there can be no assurance that the forward-looking information will in fact prove to be accurate. The order in which these factors appear should not be construed to indicate their relative importance or priority. We caution that these factors may not be exhaustive, accordingly, any forward-looking statements contained herein should not be relied upon as a prediction of actual results.

You should carefully consider these and other relevant factors and information which may be contained in this Form 10-K and in our other filings with the U.S. Securities and Exchange Commission, or SEC, when reviewing any forward-looking statement. Investors should understand it is impossible to predict or identify all such factors or risks. As such, you should not consider the risks identified in our SEC filings, to be a complete discussion of all potential risks or uncertainties.

Any forward-looking statement made in this Form 10-K is based only on information currently available to us and speaks only as of the date on which it is made. We do not undertake any obligation to release publicly any revisions to any forward-looking statements whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.

General

Patterson Companies, Inc. is a value-added specialty distributor serving the U.S. and Canadian dental supply markets and the U.S., Canadian and U.K. animal health supply markets. Patterson operates through its two strategic business units, Patterson Dental and Patterson Animal Health, offering similar products and services to different customer bases. Each business has a strong competitive position, serves a highly fragmented market that offers consolidation opportunities and offers relatively low-cost consumable supplies, which makes our value-added business proposition highly attractive to our customers. We believe that we have a strong brand identity as a value-added, full-service distributor with broad product and service offerings, having begun distributing dental supplies in 1877.

Impacts of COVID-19

The COVID-19 pandemic, including closures and other steps taken by governmental authorities in response to the virus, has had a significant impact on our businesses. In March 2020, based upon the recommendations of the American Dental Association, the American Veterinary Medical Association and such organizations' state-level counterparts, various dental and veterinary offices announced that they were performing only emergency or limited procedures, and rescheduled wellness exams and other elective procedures. In addition, many states and countries imposed restrictions on business operations to protect public health. Finally, the pandemic disrupted meat packing operations, which impacted our Animal Health segment.

In response, management adapted our business practices with respect to employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences. Management also took proactive steps with respect to our liquidity position and near-term cost structure, including through incremental borrowings on our revolving credit facility to increase cash, reduction of non-critical capital expenditures, executive, board, and other senior-level employee compensation reductions, employee furloughs, discretionary spending deferrals and the deferral of payroll taxes under the CARES Act.

In our markets of the U.S., Canada, and the UK, restrictive measures have now been lifted or are expected to be lifted soon, sometimes subject to social distancing and capacity restrictions, due to the rapid pace of vaccination and improving local case rates. However, other areas around the world continue to suffer. Concerns remain that our markets could see a resurgence of cases triggering another shutdown, for example due to the emergence of a variant not effected by existing vaccines. In addition, COVID-19 continues to have a material effect on the macroeconomic environment, and there is continued uncertainty around its duration and ultimate impact.

Refer to Part I, Item 1A, "Risk Factors," and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," within this Annual Report for further information on the impacts to our business and results of operations, our dividends, liquidity and debt arrangements, and associated risks and uncertainties.

Business Overview

The following table sets forth consolidated net sales (in millions) by segment.

	Fiscal Year Ended		
	April 24, 2021	April 25, 2020	April 27, 2019
Dental	$ 2,327	$ 2,102	$ 2,192
Animal Health	3,560	3,336	3,355
Corporate	25	52	28
Consolidated net sales	$ 5,912	$ 5,490	$ 5,575

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

Electronic commerce solutions have become an integral part of dental and animal health supply and distribution relationships. Our distribution business is characterized by rapid technological developments and intense competition. The continuing advancement of online commerce requires us to cost-effectively adapt to changing technologies, to enhance existing services and to develop and introduce a variety of new services to address the changing demands of consumers and our customers on a timely basis, particularly in response to competitive offerings. We believe that our tradition of reliable service, our name recognition and large customer base built on solid customer relationships, position us well to participate in this significant aspect of the distribution business. We continue to explore methods to improve and expand our Internet presence and capabilities, including our online commerce offerings and our use of various social media outlets.

Patterson became publicly traded in 1992 and is a corporation organized under the laws of the state of Minnesota. We are headquartered in St. Paul, Minnesota. Our principal executive offices are located at 1031 Mendota Heights Road, St. Paul, Minnesota 55120, and our telephone number is (651) 686-1600. Unless the context specifically requires otherwise, the terms the "Company," "Patterson," "we," "us" and "our" mean Patterson Companies, Inc., a Minnesota corporation, and its consolidated subsidiaries.

The Specialty Distribution Markets We Serve

We provide manufacturers with cost effective logistics and high-caliber sales professionals to access a geographically diverse customer base, which is critical to the supply chain for the markets we serve. We provide our customers with an array of value-added services, a dedicated and highly skilled sales team, and a broad selection of products through a single channel, thereby helping them efficiently manage their ordering process. Due in part to the inability of our customers to store and manage large quantities of supplies at their locations, the distribution of supplies and small equipment has been characterized by frequent, small-quantity orders, and a need for rapid, reliable and substantially-complete order fulfillment. Supplies and small equipment are generally purchased from more than one distributor, with one generally serving as the primary supplier.

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

Dental Supply Market

The dental supply market we serve consists of geographically dispersed and highly fragmented dental practices. Customers range in size from sole practitioners to large group practices, often called Dental Service Organizations ("DSO's"). According to the American Dental Association and the Canadian Dental Association, there are approximately 201,000 dentists practicing in the U.S. and 21,000 dentists practicing in Canada. We believe the average dental practitioner purchases supplies from more than one supplier.

We believe the North American dental supply market continues to experience growth due to an increasing population, an aging population, advances in dentistry, demand for general, preventive and specialty services, increasing demand for new technologies that allow dentists to increase productivity, demand for infection control products, and insurance coverage by dental plans.

We support dental professionals through the many stock keeping units (“SKUs”) that we offer, as well as through important value-added services, including equipment and technology installation and service, practice management software, electronic claims processing, financial services, and continuing education, all designed to help make a dental practice more efficient.

Animal Health Supply Market

The animal health supply market is a mix of production animal supply, which primarily serves food producing animals, consisting of beef and dairy cattle, swine and poultry and other species such as sheep and goats, and companion animal supply, which serves pets, primarily dogs, cats and horses. Similar to the dental supply market, the animal health supply market is highly fragmented and diverse. Our production animal customers include large animal veterinarians, beef producers (cow/calf, stocker and feedlots), dairy producers, poultry producers, swine producers and retail customers. Our companion animal customers are primarily small animal and equine veterinary clinics, including independently owned, corporates and groups. According to the American Veterinary Medical Association, there are more than 70,000 veterinarians in private practice in the U.S. and Canada. Furthermore, there are approximately 20,000 veterinarians in the U.K. practicing in veterinary outlets; however, we believe there has been a shift in the U.K. market toward consolidation of veterinary practices. National Veterinary Services Limited, is the market leader in the U.K. veterinary market, with the highest percentage of buying groups and corporations as customers compared to its competitors, and the highest share position in that country overall.

The global animal health supply market continues to experience growth, and we believe that trend will continue for the foreseeable future. We support our animal health customers through the distribution of biologicals, pharmaceuticals, parasiticides, supplies, including our own private label brands, and equipment. We also supply a full portfolio of technologies, software, services and solutions to all segments and channels of our broad customer base. We actively engage in the development, sale and distribution of inventory, accounting and health management systems to enhance customer operating efficiencies and assist our customers in managing risk. Within the companion animal supply market, we anticipate increasing demand for veterinary services due to the following factors: the increasing number of households with companion animals, increased pet adoption rates and increased expenditures on animal health and preventative care, an aging pet population, advancements in animal health products and diagnostic testing, and extensive marketing programs sponsored by companion animal nutrition and pharmaceutical companies.

We anticipate the macroeconomic trend of global population growth and corresponding demand for protein will be favorable to the production animal segment in the future. Likewise, the rise in disposable income, especially in developing countries will be a key driver of future growth. However; product sales in the production animal supply market are more likely to be impacted by volatility in the market such as commodity prices, changes in weather patterns, and trends in the general economy. Many factors can influence how long cattle will graze and consequently the number of days an animal is on feed during a finishing phase. Supply and demand dynamics and economic trends can shift the number of animals treated, the timing of when animals are treated, to what extent they are treated and with which products they are treated. Historically, sales in this market have been largely driven by spending on animal health products to improve productivity, weight gain and disease prevention, as well as a growing focus on health and wellness of the animals, safety, and efficiency in livestock production.

Competition

The distribution industry is highly competitive. It consists principally of national, regional and local full-service distributors. Substantially all of the products we sell are available to customers from a number of suppliers. In addition, our competitors could obtain exclusive rights from manufacturers to market particular products. Some manufacturers also sell directly to end-users, thereby eliminating or reducing our role and that of other distributors.

We compete with other distributors, as well as several manufacturers, of dental and animal health products, on the basis of price, breadth of product line, customer service and value-added products and services. To differentiate ourselves from our competition we deploy a strategy of premium customer service with multiple value-added components, a highly qualified and motivated sales force, highly-trained and experienced service technicians, an extensive breadth and mix of products and services, technology solutions allowing customers to easily access our inventory, accurate and timely delivery of product, strategic location of sales offices and fulfillment centers, and competitive pricing.

In the U.S. and Canadian dental supply market, we compete against Henry Schein, Inc., Benco Dental Supply Company, Burkhart Dental Supply and hundreds of distributors that operate on a regional or local level, or online. Also, as noted above, some manufacturers sell directly to end users. With regard to our dental practice management software, we compete against numerous companies, including Carestream Health, Inc. and Henry Schein, Inc.

In the U.S. and Canadian animal health supply market, our primary competitors are AmerisourceBergen/MWI Animal Health and Covetrus, Inc. We also compete against a number of regional and local animal health distributors, some manufacturers that sell direct to end users and several alternative channel market providers that sell through digital platforms to production animal operators, animal health product retailers and veterinarians. Additionally, major U.S. online e-commerce retailers such as Amazon and Chewy.com are becoming licensed as veterinary mail order pharmacies to offer pharmacy products directly to consumers in all 50 U.S. states. In the animal health practice management market, our primary competitors are IDEXX Laboratories, Inc. and Covetrus, Inc. We face significant competition in the animal health supply market in the U.K., where we compete on the basis of price and customer service with several large competitors, including Covetrus, Inc. and AmerisourceBergen. We also compete directly with pharmaceutical companies who sell certain products or services directly to the customer.

Successful distributors are increasingly providing value-added services in addition to the products they have traditionally provided. We believe that to remain competitive we must continue to add value to the distribution channel, while removing unnecessary costs associated with product movement. Significant price reductions by our competitors could result in competitive harm. Any of these competitive pressures may materially adversely affect our operating results.

Competitive Strengths

We have more than 140 years of experience in distributing products resulting in strong awareness of the Patterson brand. Although further information regarding these competitive strengths is set forth below in the discussion of our two strategic business units, our competitive strengths include:

- *Broad product and service offerings at competitive prices*. We offer approximately 200,000 SKUs to our customers, including many proprietary branded products. We believe that our proprietary branded products and our competitive pricing strategy have generated a loyal customer base that is confident in our brands. Of the SKUs offered, approximately 100,000 are offered to our dental customers and approximately 100,000 are offered to our animal health customers. Our product offerings include consumables, equipment, software and various technologies. Our value-added services include practice management software, office design, equipment installation and maintenance, and financing.

- *Focus on customer relationships and exceptional customer service.* Our sales and marketing efforts are designed to establish and solidify customer relationships through personal visits by field sales representatives, interaction via phone with sales representatives, web-based activities including e-commerce and frequent direct marketing, emphasizing our broad product lines, competitive prices and ease of order placement. We focus on providing our customers with exceptional order fulfillment and a streamlined ordering process.

- *Cost-effective purchasing and efficient distribution.* We believe that cost-effective purchasing is a key element to maintaining and enhancing our position as a competitive-pricing provider of dental and animal health products. We strive to maintain optimal inventory levels to satisfy customer demand for prompt and complete order fulfillment through our distribution of products from strategically located fulfillment centers.

Business Strategy

Our objective is to continue to expand as a leading value-added distributor of dental and animal health products and services. To accomplish this, we will apply our competitive strengths in executing the following strategies:

- *Emphasizing our differentiated, value-added, full-service capabilities*. We are positioned to meet virtually all of the needs of dental practitioners, veterinarians, production animal operators and animal health product retailers by providing a broad range of consumable supplies, technology, equipment and software and value-added services. We believe our knowledgeable sales representatives can create customer intimacy and loyalty by providing an informational, consultative approach to our customers, linking them to the industries we serve. Our value-added strategy is further supported by our equipment specialists who offer consultation on design, equipment requirements and financing, our service technicians who perform equipment installation, maintenance and repair services, our business development professionals who provide business tools and educational programs to our customers, and our technology advisors who provide guidance on integrating technology solutions.

- *Using technology to enhance customer service.* As part of our commitment to providing superior customer service, we offer our customers easy order placement. Although we offer computerized order entry systems that we believe help establish relationships with new customers and increase loyalty among existing customers, predominant platforms for ordering today include www.pattersondental.com, www.pattersonvet.com and www.animalhealthinternational.com. The use of these methods of ordering enables our sales representatives to spend more time with existing and prospective customers. Our Internet environment includes order entry, customer support for digital and our proprietary products, customer-loyalty program reports and services, and access to articles and manufacturers' product information. We also provide real-time customer and sales information to our sales force, managers and vendors via the Internet. In addition, the Patterson Technology Center ("PTC") differentiates Patterson from our competition by providing deep and thorough expertise in practice management software and other advanced equipment and technology clinical solutions. In addition to trouble-shooting through the PTC's support center, customers can access various service capabilities offered by the PTC, including electronic claims and statement processing and system back-up capabilities.

- *Continuing to improve operating efficiencies.* We continue to implement programs designed to improve our operating efficiencies and allow for continued sales growth. This strategy includes our continuing investment in management information systems and consolidation and leveraging of fulfillment centers and sales branches between our operating segments. In addition, we have established shared sales branch offices in several locations.

- *Growing through internal expansion and acquisitions*. We intend to continue to grow by hiring established sales representatives, hiring and training skilled sales professionals, opening additional locations as needed, and acquiring other companies in order to enter new, or more deeply penetrate existing, markets, gain access to additional product lines, and expand our customer base. We believe both of our operating segments are well positioned to take advantage of expected continued consolidation in our markets.

Dental Segment - Products, Services and Sources of Supply

Patterson Dental, one of the two largest distributors of dental products in North America, has operations in the U.S. and Canada. As a full-service, value-added supplier to over approximately 107,000 dental practices, dental laboratories, educational institutions, and community health centers, Patterson Dental provides consumable products (including infection control, restorative materials, and instruments); basic and advanced technology and dental equipment; and innovative practice optimization solutions, including practice management software, e-commerce, revenue cycle management, patient engagement solutions, and clinical and patient education. Patterson Dental offers customers approximately 100,000 SKUs of which more than 3,500 are private-label products sold under the Patterson brand. Patterson Dental also offers customers a range of related services including software and design services, maintenance and repair, and equipment financing. Net sales and operating income were $2.3 billion and $201 million in fiscal 2021, respectively.

The following table sets forth the percentage of total sales by the principal categories of products and services offered to our dental segment customers:

	Fiscal Year Ended		
	April 24, 2021	April 25, 2020	April 27, 2019
Consumable	56 %	54 %	55 %
Equipment and software	31	32	32
Value-added services and other [1]	13	14	13
	100 %	100 %	100 %

[1] Consists of other value-added services, including software and design service, and maintenance and repair.

Patterson Dental obtains products from hundreds of vendors, most of which are non-exclusive. While there is generally more than one source of supply for most of the categories of products we sell, the concentration of business with key suppliers is considerable, as consolidation has increased among manufacturers. In fiscal 2021, 2020 and 2019, Patterson Dental's top ten supply vendors accounted for approximately 57%, 63% and 48% of the total cost of sales, respectively. The top vendor accounted for 25%, 22% and 19% of the total cost of sales in fiscal 2021, 2020 and 2019, respectively.

Animal Health Segment - Products, Services and Sources of Supply

Patterson Animal Health is a leading distributor of animal health products in the U.S., Canada and the U.K. We sell more than 100,000 SKUs sourced from over 2,000 manufacturers to over 50,000 customers in the highly fragmented animal health supply market. Products we distribute include pharmaceuticals, vaccines, parasiticides, diagnostics, prescription and non-prescription diets, nutritionals, consumable supplies, equipment and software. We offer a private label portfolio of products to veterinarians, producers, and retailers through our Aspen, First Companion and Patterson Veterinary brands. We also provide a range of value-added services to our customers. Within our companion animal supply market, our principal customers are companion-pet and equine veterinarians, veterinary clinics, public and private institutions, and shelters. In our production animal supply market, our principal customers are large animal veterinarians, production animal operators and animal health product retailers. Consumer demand for alternative means of sourcing product through digital platforms is an evolving dynamic in our industry. We provide digital home delivery solutions to allow us to evolve with the market. Net sales and operating income were $3.6 billion and $88 million in fiscal 2021, respectively.

The following table sets forth the percentage of total sales by the principal categories of products and services offered to our animal health segment customers:

	Fiscal Year Ended		
	April 24, 2021	April 25, 2020	April 27, 2019
Consumable	96 %	97 %	97 %
Equipment and software	3	2	2
Value-added services and other	1	1	1
	100 %	100 %	100 %

Patterson Animal Health obtains products from over 2,000 vendors globally. While Patterson Animal Health makes purchases from many vendors and there is generally more than one source of supply for most of the categories of products, the concentration of business with key vendors is considerable, as consolidation has increased among manufacturers. In fiscal 2021, 2020 and 2019, Patterson Animal Health’s top 10 manufacturers comprised approximately 70%, 70% and 65% of the total cost of sales, respectively, and the single largest supplier comprised approximately 20% of the total cost of sales in each year.

Sales, Marketing and Distribution

During fiscal 2021, we sold products or services to over 157,000 customers who made one or more purchases during the year. Our customers include dentists, laboratories, institutions, other healthcare professionals, veterinarians, other animal health professionals, production animal operators and animal health product retailers. No single customer accounted for more than 10% of sales during fiscal 2021, and we are not dependent on any single customer or geographic group of customers.

We have offices throughout the U.S. and Canada so that we can provide a presence in the market and decision-making near the customer. Patterson Animal Health also has a central office in the U.K. Our offices, or sales branches, are staffed with a complete complement of our capabilities, including sales, customer service and technical service personnel, as well as a local manager who has decision-making authority with regard to customer-related transactions and issues.

A primary component of our value-added approach is our professional sales and support organization. Due to the highly-fragmented nature of the markets we serve, we believe that our unique combination of field-based and call-center sales and support teams is critical to reaching potential customers and providing a differentiated customer experience. Our sales representatives play an indispensable and critical role in managing a practice's supply chain and in introducing new products and technologies.

In the U.S. and Canada, customer service representatives in call centers work in tandem with our sales representatives, providing a dual coverage approach for individual customers. In addition to processing orders, customer service representatives are responsible for assisting customers with ordering, informing customers of monthly promotions, and responding to general inquiries. In the U.K., our customer service team is primarily responsible for handling customer inquiries and resolving issues.

To assist our customers with their purchasing decisions, we provide a multi-touchpoint shopping experience. From print to digital, this seamless experience is inclusive of products and services information. Patterson offers online and in-print showcases of our expansive merchandise and equipment offerings, including digital imaging and computer-aided design and computer-aided manufacturing ("CAD/CAM") technologies, hand-held and similar instruments, sundries, office design, e-services, repair and support assistance, as well as financial services. We also promote select products and services through our monthly magazine, *Insight*, in the U.S. and Canada, and our quarterly magazine, *The Cube*, in the U.K. Additional direct marketing tools that we utilize include customer loyalty programs, social media, and participation in trade shows.

We believe that responsive delivery of quality supplies and equipment is key to customer satisfaction. We ship consumable supplies from our strategically located fulfillment centers in the U.S. and Canada. In the U.K., orders are accepted in a centralized fulfillment center and shipped nationwide to one of our depots located throughout the country at which pre-packed orders are sorted by route for delivery to customers. Orders for consumable supplies can be placed through our sales representatives, customer service representatives or electronically 24 hours a day, seven days a week. Rapid and accurate order fulfillment is another principal component of our value-added approach.

In order to assure the availability of our broad product lines for prompt delivery to customers, we must maintain sufficient inventories at our fulfillment centers. Purchasing of consumables and standard equipment is centralized, and our purchasing department uses a real-time perpetual inventory system to manage inventory levels. Our inventory consists mostly of consumable supply items and pharmaceutical products.

Geographic Information

For information on revenues and long-lived assets of our segments by geographic area, see Note 13 to the Consolidated Financial Statements.

Seasonality and Other Factors Affecting Our Business and Quarterly Results

Our business in general is not seasonal; however, there are some products that typically sell more often during the winter or summer season. In any given month, unusual weather patterns (e.g., unusually hot or cold weather) could impact the sales volumes of these products, either positively or negatively. In addition, we experience fluctuations in quarterly earnings. As a result, we may fail to meet or exceed the expectations of securities analysts and investors, which could cause our stock price to decline. Quarterly results may be materially adversely affected by a variety of factors, including:

- timing and amount of sales and marketing expenditures;
- timing of pricing changes offered by our suppliers;
- timing of the introduction of new products and services by our suppliers;
- changes in or availability of supplier contracts or rebate programs;
- supplier rebates based upon attaining certain growth goals;
- changes in the way suppliers introduce or deliver products to market;
- costs of developing new applications and services;
- our ability to correctly identify customer needs and preferences and predict future needs and preferences;
- uncertainties regarding potential significant breaches of data security or disruptions of our information technology systems;
- regulatory actions, or government regulation generally;
- loss of sales representatives;
- costs related to acquisitions and/or integrations of technologies or businesses;
- costs associated with our self-insured insurance programs;
- general market and economic conditions, as discussed in Item 1A: Risk Factors, including pandemic and civil unrest, as well as those specific to the supply and distribution industry and related industries;
- our success in establishing or maintaining business relationships;
- difficulties of manufacturers in developing and manufacturing products;
- product demand and availability, or product recalls by manufacturers;
- exposure to product liability and other claims in the event that the use of the products we sell results in injury;
- increases in shipping costs or service issues with our third-party shippers;
- fluctuations in the value of foreign currencies;
- goodwill impairment;
- changes in interest rates;
- restructuring costs;
- the adoption or repeal of legislation;
- changes in accounting principles; and
- litigation or regulatory judgments, fines, forfeitures, penalties, equitable remedies, expenses or settlements.

Governmental Regulation

We strive to be substantially compliant with the applicable laws, regulations and guidance described below, and believe we have effective compliance programs and other controls in place to ensure substantial compliance. However, compliance is not guaranteed either now or in the future, as certain laws, regulations and guidance may be subject to varying and evolving interpretations that could affect our ability to comply, as well as future changes, additions, and enforcement approaches, including in light of political changes. For example, President Biden's administration has authorized and encouraged a freeze on certain federal regulations that have been published but are not yet effective, as well as a review of all federal regulations issued during President Trump's administration. Changes with respect to the applicable laws, regulations and guidance described below may require us to update or revise our operations, services, marketing practices, and compliance programs and controls, and may impose additional and unforeseen costs on us, pose new or previously immaterial risks to us, or may otherwise have a material adverse effect on our business.

Operating, Security and Licensure Standards

Our dental and animal health supply businesses involve the distribution, importation, exportation, marketing and sale of, and third party payment for, pharmaceuticals and medical devices, and in this regard we are subject to various local, state, federal and foreign governmental laws and regulations applicable to the distribution of pharmaceuticals and medical devices. Among the U.S. federal laws applicable to us are the Controlled Substances Act, the Federal Food, Drug, and Cosmetic Act, as amended (the "FDC Act"), and Section 361 of the Public Health Service Act, as well as laws regulating the billing of and reimbursement from government programs, such as Medicare and Medicaid, and from commercial payers. We are also subject to comparable foreign regulations.

The FDC Act, the Controlled Substances Act, their implementing regulations, and similar foreign laws generally regulate the introduction, manufacture, advertising, marketing and promotion, sampling, pricing and reimbursement, labeling, packaging, storage, handling, returning or recalling, reporting, and distribution of, and record keeping for, pharmaceuticals and medical devices shipped in interstate commerce, and states may similarly regulate such activities within the state. Furthermore, Section 361 of the Public Health Service Act, which provides authority to prevent the introduction, transmission, or spread of communicable diseases, serves as the legal basis for the U.S. Food and Drug Administration's ("FDA") regulation of human cells, tissues and cellular and tissue-based products, also known as "HCT/P products."

The federal Drug Quality and Security Act of 2013 brought about significant changes with respect to pharmaceutical supply chain requirements. Title II of this measure, known as the Drug Supply Chain Security Act ("DSCSA"), is being phased in over a period of 10 years, and is intended to build a national electronic, interoperable system to identify and trace certain prescription drugs as they are distributed in the U.S. The law's track and trace requirements applicable to manufacturers, wholesalers, repackagers and dispensers (e.g., pharmacies) of prescription drugs took effect in January 2015. The DSCSA product tracing requirements replace the former FDA drug pedigree requirements and pre-empt certain state requirements that are inconsistent with, more stringent than, or in addition to, the DSCSA requirements.

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

The Food and Drug Administration Amendments Act of 2007 and the Food and Drug Administration Safety and Innovation Act of 2012 amended the FDC Act to require the FDA to promulgate regulations to implement a unique device identification ("UDI") system. The UDI rule phased in the implementation of the UDI regulations, generally beginning with the highest-risk devices (i.e., Class III medical devices) and ending with the lowest-risk devices. The UDI regulations require "labelers" to include unique device identifiers ("UDIs"), with a content and format prescribed by the FDA and issued under a system operated by an FDA-accredited issuing agency, on the labels and packages of medical devices (including, but not limited to, certain software that qualifies as a medical device under FDA rules), and to directly mark certain devices with UDIs. The UDI regulations also require labelers to submit certain information concerning UDI-labeled devices to the FDA, much of which information is publicly available on an FDA database, the Global Unique Device Identification Database. Regulated labelers include entities such as device manufacturers, repackagers, reprocessors and relabelers that cause a device's label to be applied or modified, with the intent that the device will be commercially distributed without any subsequent replacement or modification of the label, and include certain of our businesses.

Under the Controlled Substances Act, as a distributor of controlled substances, we are required to obtain and renew annually registrations for our facilities from the U.S. Drug Enforcement Administration ("DEA") permitting us to handle controlled substances. We are also subject to other statutory and regulatory requirements relating to the storage, sale, marketing, handling and distribution of such drugs, in accordance with the Controlled Substances Act and its implementing regulations, and these requirements have been subject to heightened enforcement activity in recent times. We are subject to inspection by the DEA. There have also been increasing efforts by various levels of government globally to regulate the pharmaceutical distribution system in order to prevent the introduction of counterfeit, adulterated or misbranded pharmaceuticals into the distribution system.

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

Certain of our businesses are subject to various additional federal, state, local and foreign laws and regulations, including with respect to the sale, transportation, storage, handling and disposal of hazardous or potentially hazardous substances, and safe working conditions. In addition, certain of our businesses must operate in compliance with a variety of burdensome and complex billing and record keeping requirements in order to substantiate claims for payment under federal, state and commercial healthcare reimbursement programs.

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

As disclosed in our prior periodic reports, our subsidiary Animal Health International was recently the subject of an investigation by the U.S. Attorney’s Office for the Western District of Virginia, which resulted in Animal Health International pleading guilty to a strict-liability misdemeanor offense in connection with its failure to comply with federal law relating to the sales of prescription animal health products, and a total criminal fine and forfeiture of $52.8 million. In addition, Animal Health International and Patterson entered into a non-prosecution agreement for other non-compliant licensing, dispensing, distribution and related sales processes disclosed during the investigation and committed to undertake additional compliance program enhancements and provide compliance certifications through fiscal 2023. This matter may continue to divert management's attention and cause us to suffer reputational harm. We also may be subject to other fines or penalties, equitable remedies (including but not limited to the suspension, revocation or non-renewal of licenses) and litigation. The occurrence of any of these events could adversely affect our business, financial condition and results of operations.

Antitrust and Consumer Protection

The federal government of the United States, most U.S. states and many foreign countries have antitrust laws that prohibit certain types of conduct deemed to be anti-competitive, as well as consumer protection laws that seek to protect consumers from improper business practices. At the U.S. federal level, the Federal Trade Commission oversees enforcement of these types of laws, and states have similar govern agencies. Violations of antitrust or consumer protection laws may result in various sanctions, including criminal and civil penalties. Private plaintiffs also may bring, and have brought, civil lawsuits against us in the U.S. for alleged antitrust violations, including claims for treble damages.

Health Care Fraud

Certain of our businesses are subject to federal and state (and similar foreign) health care fraud and abuse, referral and reimbursement laws and regulations with respect to their operations. Some of these laws, referred to as “false claims laws,” prohibit the submission or causing the submission of false or fraudulent claims for reimbursement to federal, state and other health care payers and programs. Other laws, referred to as “anti-kickback laws,” prohibit soliciting, offering, receiving or paying remuneration in order to induce the referral of a patient or ordering, purchasing, leasing or arranging for or recommending ordering, purchasing or leasing, of items or services that are paid for by federal, state and other health care payers and programs. Several states apply their false claims and anti-kickback laws to all payers, including goods and services paid for directly by consumers. Certain additional state and federal laws, such as the federal Physician Self-Referral Law, commonly known as the “Stark Law,” prohibit physicians and other health professionals from referring a patient to an entity with which the physician (or family member) has a financial relationship, for the furnishing of certain designated health services (for example, durable medical equipment and medical supplies), unless an exception applies.

The fraud and abuse laws and regulations have been subject to heightened enforcement activity over the past few years, and significant enforcement activity has been the result of “relators,” who serve as whistleblowers by filing complaints in the name of the U.S. (and, if applicable, particular states) under applicable false claim laws. Under the federal False Claims Act, relators can be entitled to receive up to 30% of the total recoveries. Penalties under fraud and abuse laws may be severe, and could result in significant civil and criminal penalties and costs, including the loss of licenses and the ability to participate in federal and state health care programs, and could have a material adverse effect on our business. Also, these measures may be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that could require us to make changes in our operations or incur substantial defense and settlement expenses. Even unsuccessful challenges by regulatory authorities or private relators could result in reputational harm and the incurring of substantial costs. Most states have adopted similar state false claims laws, and these state laws have their own penalties which may be in addition to federal False Claims Act penalties.

Health Care Reform

The U.S. Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act (the "Health Care Reform Law") increased federal oversight of private health insurance plans and included a number of provisions designed to reduce Medicare expenditures and the cost of health care generally, to reduce fraud and abuse, and to provide access to increased health coverage. The continued uncertain status of the Health Care Reform Law affects our ability to plan.

A Health Care Reform Law provision, generally referred to as the Physician Payment Sunshine Act or Open Payments Program (the "Sunshine Act"), has imposed reporting and disclosure requirements for drug and device manufacturers and distributors with regard to payments or other transfers of value made to certain practitioners (including physicians, dentists and teaching hospitals), and for such manufacturers and distributors and for group purchasing organizations, with regard to certain ownership interests held by physicians in the reporting entity. The Centers for Medicare and Medicaid Services ("CMS") publishes information from these reports on a publicly available website, including amounts transferred and physician, dentist and teaching hospital identities. Amendments expanded the law to also require reporting, effective Jan. 1, 2022, of payments or other transfers of value to physician assistants, nurse practitioners, clinical nurse specialists, certified registered nurse anesthetists, and certified nurse-midwives, and this new requirement is effective for data collected beginning in calendar year 2021.

The Sunshine Act pre-empts similar state reporting laws, although we or our subsidiaries may also be required to report under certain state transparency laws that address circumstances not covered by the Sunshine Act, and some of these state laws, as well as the federal law, can be ambiguous. We are also subject to foreign regulations requiring transparency of certain interactions between suppliers and their customers. Our compliance with these rules imposes additional costs on us.

In addition, recently there has been increased scrutiny on drug pricing and concurrent efforts to control or reduce drug costs by Congress, the President, and various states, including that several related bills have been introduced at the federal level. Such legislation, if enacted, could have the potential to impose additional costs on our business.

Regulated Software; Electronic Health Records

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

In addition, certain of our practice management products include electronic information technology systems that store and process personal health, clinical, financial and other sensitive information of individuals. These information technology systems may be vulnerable to breakdown, wrongful intrusions, data breaches and malicious attack, which could require us to expend significant resources to eliminate these problems and address related security concerns, and could involve claims against us by private parties and/or governmental agencies. For example, we are directly or indirectly subject to numerous and evolving federal, state, local and foreign laws and regulations that protect the privacy and security of such information, such as the privacy and security provisions of the federal Health Insurance Portability and Accountability Act of 1996, as amended, and implementing regulations ("HIPAA"), the Controlling the Assault of Non-Solicited Pornography and Marketing Act, the Telephone Protection and Electronic Protection Act of 1991, Section 5 of the Federal Trade Commission Act, the California Privacy Act ("CCPA"), and the California Privacy Rights Act ("CPRA") that becomes effective on January 1, 2023. Our businesses' failure to comply with these laws and regulations could expose us to breach of control claims, substantial fines, penalties and other liabilities and expenses, costs for remediation and harm to our reputation.

Also, evolving laws and regulations in this area could restrict the ability of our customers to obtain, use or disseminate patient information, or could require us to incur significant additional costs to re-design our products to reflect these legal requirements, which could have a material adverse effect on our operations.

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

Also, the European Parliament and the Council of the European Union adopted the pan-European General Data Protection Regulation ("GDPR"), effective from May 2018, which increased privacy rights for individuals in Europe, including individuals who are our customers, suppliers, and employees. The GDPR extended the scope of responsibilities for data controllers and data processors, and generally imposes increased requirements and potential penalties on companies that offer goods or services to individuals who are located in Europe ("Data Subjects") or monitor their behavior (including by companies based outside of Europe). Noncompliance can result in penalties of up to the greater of EUR 20 million, or 4% of global company revenues, and Data Subjects may seek damages. Individual member states may impose additional requirements and penalties regarding certain matters such as employee personal data. With respect to the personal data it protects, the GDPR requires, among other things, company accountability, consents from Data Subjects or other acceptable legal basis to process the personal data, breach notifications within 72 hours, data integrity and security, and fairness and transparency regarding the storage, use or other processing of the personal data. The GDPR also provides rights to Data Subjects relating notably to information, access, modification, erasure and transporting of the personal data.

In the United States, the CCPA, which increases the privacy protections afforded California residents, became effective on January 1, 2020. The CCPA generally requires companies, such as us, to institute additional protections regarding the collection, use and disclosure of certain personal information of California residents. Compliance with the new obligations imposed by the CCPA depends in part on how particular regulators interpret and apply them, because the CCPA is relatively new, and its implementing regulations were released in August of 2020, there remains some uncertainty about how the CCPA will be interpreted by the courts and enforced by the regulators. If we fail to comply with the CCPA or if regulators assert that we have failed to comply with the CCPA, we may be subject to certain fines or other penalties and litigation, any of which may negatively impact our reputation, require us to expend significant resources, and harm our business. Furthermore, California voters approved the CPRA on November 3, 2020, which will amend and expand the CCPA, including by providing consumers with additional rights with respect to their personal information, and creating a new state agency to enforce the CCPA and the CPRA. The CPRA will come into effect on January 1, 2023, applying to information collected by business on or after January 1, 2022.

Other states, as well as the federal government, have increasingly considered the adoption of similarly expansive personal privacy laws, backed by significant civil penalties for non-compliance. While we believe we have substantially compliant programs and controls in place to comply with the GDPR, CCPA and CPRA requirements, our compliance with these measures is likely to impose additional costs on us, and we cannot predict whether the interpretations of the requirements, or changes in our practices in response to new requirements or interpretations of the requirements, could have a material adverse effect on our business.

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

E-Commerce

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

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

International Transactions

U.S. and foreign import and export laws and regulations require us to abide by certain standards relating to the importation and exportation of products. We also are subject to certain laws and regulations concerning the conduct of our foreign operations, including the Foreign Corrupt Practices Act and other anti-bribery laws and laws pertaining to the accuracy of our internal books and records, as well as other types of foreign requirements similar to those imposed in the U.S.

There can be no assurance that regulations that impact our business or customers' practices will not have a material adverse effect on our business. As a result of political, economic and regulatory influences, the health care distribution industry in the U.S. is under intense scrutiny and subject to fundamental changes. We cannot predict what further reform proposals, if any, will be adopted, when they may be adopted, or what impact they may have on us.

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

Proprietary Rights

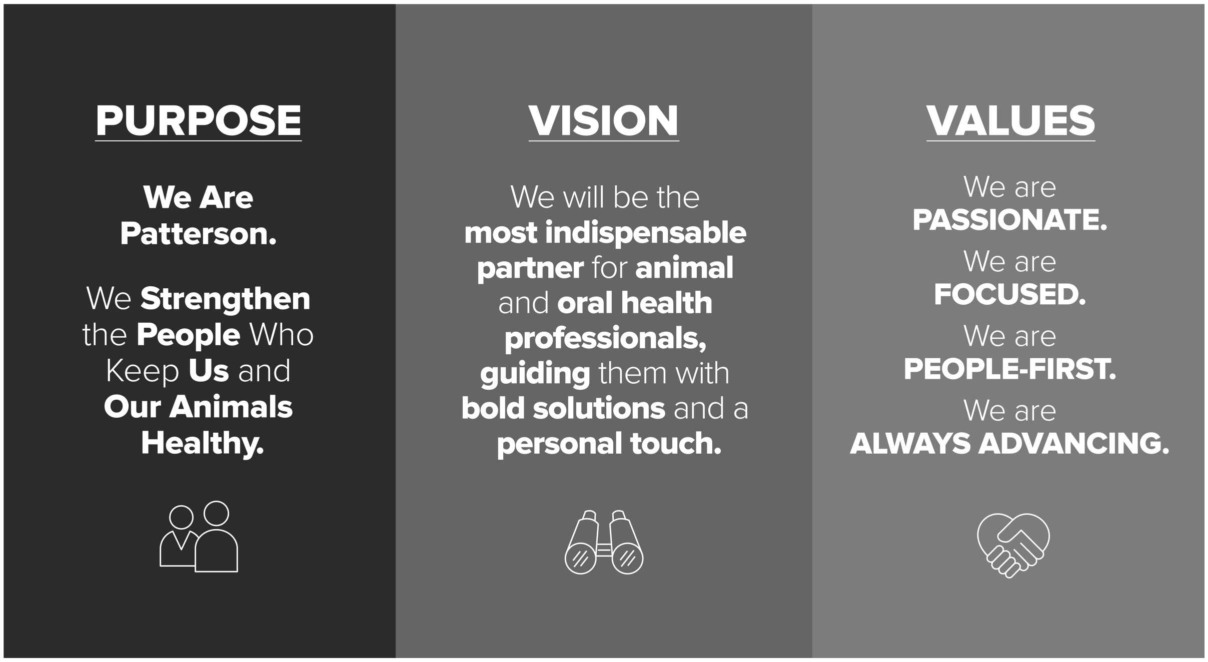
We hold trademarks relating to the "Patterson®" name and logo, as well as certain other trademarks. Our U.S. trademark registrations have 10-year terms, and may be renewed for additional 10-year terms. We intend to protect our trademarks to the fullest extent practicable.

Human Capital

People are the most important part of Patterson. Our employees are the reason we can confidently say we offer *Trusted Expertise, Unrivaled Support* to our customers every day.

As of April 24, 2021, we had approximately 7,800 full-time employees. We have not experienced a shortage of qualified personnel in the past and believe that we will be able to attract such employees in the future. We believe our relations with employees to be good.

Patterson has been on a multi-year culture transformation that involves listening to, engaging with, and enabling our team. Our culture is driven by our purpose, vision, and values:



We believe that a diverse and inclusive workforce makes our company stronger, and we encourage our teams to bring their authentic selves to Patterson every day. Our UNITES team is composed of volunteer Patterson team members and their executive sponsors drive four pillars of diversity and inclusion: Community Engagement, Leadership Development, Employee Engagement, and Talent Acquisition. We have also developed a mentorship initiative to advance the growth and development of women leaders, and supported the launch of employee-led affinity groups including Patterson UNITES LGBTQA. As of April 24, 2021, 40.9% of our U.S. workforce and 37.8% of our management was female. In addition, as of that date, 20.4% of our U.S. workforce and 13.4% of our management was ethnically diverse.

During calendar 2020, to protect our employees and reduce the spread of COVID-19 in our communities during the pandemic, we implemented numerous new guidelines – from travel restrictions to staggered work schedules to extra protocols at our essential facilities. Every team member who could work remotely did so, and we implemented tools and resources to support our team members' health and financial well-being by providing paid time off for those who were quarantined or those who needed to support distance learning for school-age children.

Available Information

We make available free of charge through our website, www.pattersoncompanies.com, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, statements of beneficial ownership of securities on Forms 3, 4 and 5 and amendments to these reports and statements filed or furnished pursuant to Section 13(a) and Section 16 of the Securities Exchange Act of 1934 as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the U.S. Securities and Exchange Commission, or SEC. This material may be accessed by visiting the Investor Relations section of our website.

In addition, the SEC maintains an Internet website at www.sec.gov, where the above information can be viewed.

Information relating to our corporate governance, including our Code of Conduct, and information concerning executive officers, Board of Directors and Board committees, and transactions in Patterson securities by directors and officers, is available on or through our website, www.pattersoncompanies.com in the Investor Relations section.

Information maintained on the website is not being included as part of this Annual Report on Form 10-K.

Information About Our Executive Officers

Set forth below is the name, age and position of the executive officers of Patterson, who are elected annually and serve at the discretion of our Board of Directors, as of June 16, 2021.

Mark S. Walchirk	55	President and Chief Executive Officer, Director - Patterson Companies, Inc.
Donald J. Zurbay	53	Chief Financial Officer - Patterson Companies, Inc.
Kevin M. Pohlman	58	President - Patterson Animal Health
Eric Shirley	55	President - Patterson Dental
Les B. Korsh	51	Vice President, General Counsel and Secretary - Patterson Companies, Inc.
Andrea Frohning	51	Chief Human Resources Officer - Patterson Companies, Inc.

Background of Executive Officers

Mark S. Walchirk became our President and Chief Executive Officer in November 2017. Mr. Walchirk previously served as President of U.S. Pharmaceutical at McKesson Corporation from October 2012 to October 2017, where he held responsibility for McKesson's U.S. Pharmaceutical sales, distribution and customer service operations. Mr. Walchirk joined McKesson in April 2001 and held various leadership positions including President of McKesson Specialty Care Solutions and Chief Operating Officer of McKesson U.S. Pharmaceutical. Before joining McKesson, he spent 13 years in medical-surgical distribution and manufacturing with Baxter Healthcare, Allegiance Healthcare and Encompass Group, holding various leadership positions in sales, marketing, operations and business development. Mr. Walchirk brings strategic and leadership experience, including healthcare services and distribution experience, to our Board.

Donald J. Zurbay became our Chief Financial Officer in June 2018. Mr. Zurbay most recently served as Vice President and Chief Financial Officer at global medical device manufacturer St. Jude Medical, Inc. from August 2012 through the January 2017 acquisition of St. Jude Medical by Abbott Laboratories. At St. Jude Medical, Mr. Zurbay was responsible for all accounting, financial and business development activities. He joined St. Jude Medical in 2003 and held various leadership positions, including Director of Finance and Vice President and Corporate Controller. Prior to joining St. Jude Medical, Mr. Zurbay worked at PricewaterhouseCoopers for five years as an Assurance and Business Advisory Services Senior Manager. Before joining PricewaterhouseCoopers, he was a General Accounting Manager at The Valspar Corporation. Mr. Zurbay started his career at Deloitte & Touche as an auditor in 1989. In terms of public company board service, Mr. Zurbay served as a director of Avedro, Inc. from its February 2019 initial public offering through its November 2019 sale, and he has served as a director of Silk Road Medical, Inc. since its April 2019 initial public offering.

Kevin M. Pohlman became President of Patterson Animal Health in July 2017. Mr. Pohlman joined Animal Health International, Inc., which was acquired by Patterson in 2015, in August 2001 and was previously its Vice President of Sales and Marketing. Prior to assuming that role, Mr. Pohlman was President of Corporate Sales and Marketing. Beginning in 2001, Mr. Pohlman held a variety of leadership roles, including Vice President of Dealer Sales with oversight of the Marketing department until June 2011. Mr. Pohlman began his career with Pohlman Bros. Supply, a family-owned dealer and distributor of dairy equipment, animal health supplies and food plan supplies in Ohio.

Eric Shirley became President of Patterson Dental in January 2019. He most recently served as Chief Commercial Officer at Midmark, a leading provider of medical, dental and veterinary equipment, technology and services. In this role, Mr. Shirley was responsible for driving revenue, marketing and operational efficiency within the company's dental, medical and animal health divisions. Mr. Shirley was employed by Midmark from 2004 to 2019. Prior to his time at Midmark, Mr. Shirley held leadership positions at Dentsply Preventive Care, Dentsply International and several other dental manufacturers.

Les B. Korsh became Vice President, General Counsel and Secretary of Patterson in July 2015. Mr. Korsh served as Patterson's Associate General Counsel since June 2014. Prior to joining Patterson, Mr. Korsh held positions as Vice President and Associate General Counsel for MoneyGram International, Inc. from May 2004 to May 2014, where he managed MoneyGram's commercial and state regulatory teams in the United States. Additionally, Mr. Korsh was a principal in the law firm of Gray Plant Mooty, P.A. from June 1999 to May 2004, where he focused his practice on emerging growth companies including financings, acquisitions and divestitures and corporate governance. He has served as a director of the Patterson Foundation since June 2016.

Andrea Frohning became our Chief Human Resources Officer in May 2018. Ms. Frohning joined Patterson from Snyder's-Lance where she held the role of Senior Vice President, Chief Human Resources Officer from March 2016 to March 2018, and was responsible for leading all aspects of the company's human resources. Prior to her tenure at Snyder's-Lance, she was Vice President Human Resources at Crane Co. from November 2013 to February 2016. Ms. Frohning also held other human resource managerial positions at Hubbell Inc., General Electric Consumer Finance and Pepsi Bottling Group.

Item 1A. RISK FACTORS

We believe that the following risks could have a material adverse impact on our business, reputation, financial results, financial condition and/or the trading price of our common stock. In addition, our business operations could be affected by factors that are not presently known to us or that we currently consider not to be material to our operations, so you should not consider the risks disclosed in this section to necessarily represent a complete statement of all risks and uncertainties. The order in which these factors appear does not necessarily reflect their relative importance or priority.

COMPANY RISKS

The COVID-19 pandemic and measures taken in response thereto had, and may continue to have, adverse effects on our results of operations and our financial condition, and the full impact of the pandemic will depend on future developments, which are highly uncertain and cannot be predicted.

Global health concerns relating to the COVID-19 pandemic have had, and continue to have, an unprecedented impact on the macroeconomic environment, and the pandemic has significantly increased unemployment and economic uncertainty. Beginning in March 2020, across our markets authorities implemented numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter in place orders, and business shutdowns, and continued to implement such measures as new waves of infection developed. These measures had negative impacts on consumer spending and business spending habits that adversely impacted our financial results and the financial results of our customers, suppliers and business partners during fiscal 2021, and are expected to continue to have negative impacts into fiscal 2022.

In our markets of the U.S., Canada, and the UK, restrictive measures have now been lifted or are expected to be lifted soon, sometimes subject to social distancing and capacity restrictions, due to the rapid pace of vaccination and improving local case rates. However, other areas around the world continue to suffer. Concerns remain that our markets could see a resurgence of cases triggering another shutdown, for example due to the emergence of a variant not effected by existing vaccines. In addition, COVID-19 continues to have a material effect on the macroeconomic environment, and there is continued uncertainty around its duration and ultimate impact.

Actual and potential impacts on us from the COVID-19 pandemic include, but are not limited to:

- *Interruptions in the operations of industries in which the products we distribute are used*. Our fiscal 2021 results were adversely affected by mandated and voluntary restrictions on the operations of dental and veterinary offices across the U.S., Canada and the UK to limit the spread of COVID-19 beginning in March 2020, along with consumers delaying elective visits even when offices were open. These restrictions have begun to ease across our markets, but continuing economic uncertainty remains. In addition, the interruptions in meatpacking operations that occurred due to the pandemic factored into the full goodwill impairment of the animal health business in fiscal 2020. We have also been affected by, and continue to be affected by, disruptions in the swine market.

- *Limited supply of the personal protective equipment (PPE) necessary for dental practice and veterinary care of companion animals followed by related inventory write down.* Supply chain disruptions for PPE and an increased demand for these products initially resulted in backorders of PPE and a potential scarcity in raw materials to make PPE, causing substantial price increases. We had to prepay suppliers in order to obtain PPE for resale to our customers, and as manufacturing caught up to increased demand for PPE, prices dropped, impacting our margins and requiring us to write down certain inventory.

- *Reduction in peoples' ability and willingness to be in public.* Consumer behavior was materially changed by mandates and recommendations designed to slow and limit the transmission of COVID-19 (including business closures and restrictions, stay-at-home and similar measures), beginning in March 2020. While such restrictions have generally been lifted or are expected to be lifted, consumer behavior remains uncertain and will depend on the actual and potential for additional resurgences of COVID-19.

- *Risks of remote work.* Most of our corporate employees shifted abruptly to working remotely under stay-at-home orders imposed in March 2020, and many of our corporate employees continue to work remotely. Our rapid transition to remote work arrangements for corporate employees could expose us to continuing cybersecurity risk.

- *Refocusing management resources*. Mitigating the effects of COVID-19 has required, and will likely continue to require for the duration of the pandemic, a large investment of time and resources across our company, and may delay certain strategic and other plans which could materially adversely affect our business.

- *Reputational risk associated with response to COVID-19*. If we do not respond appropriately to the COVID-19 pandemic, or if customers do not perceive our response to be adequate, we could suffer damage to our reputation and our brands, which could materially adversely affect our business.

- *Interruptions in manufacturing or distribution of products we distribute.* Outbreaks in the communities in which we operate could affect our ability to operate our distribution activities, and our suppliers could experience similar manufacturing interruptions.

Even after COVID-19 has subsided, we may continue to experience materially adverse impacts to our business as a result of its global economic impact, including any recession that has occurred or may occur in the future. There are no comparable recent events which may provide guidance as to the effect of the spread of COVID-19, and, as a result, the ultimate impact of COVID-19, or a similar health epidemic or pandemic, is highly uncertain and subject to change. We do not yet know the full extent of the impacts on our dental and animal health businesses, our operations or the global economy as a whole. However, the effects could have a material impact on our results of operations. The impact of COVID-19 may also exacerbate other risks discussed below, any of which could have a material adverse impact on us.

Customer retention and business development depend heavily on our relationships with our sales representatives and service technicians, who interact directly with our customers, and the technological products and services we offer.

The inability to attract or retain qualified employees, particularly sales representatives and service technicians who relate directly with our customers, or our inability to build or maintain relationships with customers in the dental and animal health markets, may have an adverse effect on our business. Due to the specialized nature of many of the products and services we distribute, generally only highly qualified and trained personnel have the necessary skills to market such products and provide such services. These individuals develop relationships with our customers that could be damaged if these employees are not retained. We face intense competition for the hiring of these professionals, and many professionals in the field that may otherwise be attractive candidates for us to hire may be bound by non-competition agreements with our competitors. Any failure on our part to hire, train and retain a sufficient number of qualified professionals would damage our business.

Due to generational and other trends in the dental and animal health industries, our customer base is increasingly interested in having the latest technologies to manage their business. In order to effectively offer solutions that keep pace with rapidly changing technologies and customer expectations, we must acquire, develop or offer new technology products and solutions. If we fail to accurately anticipate and meet our customers' needs through the acquisition, development or distribution of new products, technologies and service offerings, if we fail to adequately protect our intellectual property rights, if the products we distribute and services we provide are not widely accepted or if current or future offerings fail to meet applicable regulatory requirements, we could lose customers to our competitors which could materially and adversely affect our results of operations and financial condition. In addition, if technology investments do not achieve the intended results, we may write-off the investments, and we face the risk of claims from system users that the systems failed to produce the intended result or negatively affected the operation of our customers' businesses. Any such claims could be expensive and time-consuming to defend, cause us to lose customers and associated revenue, divert management's attention and resources, or require us to pay damages.

Disruption to our distribution capabilities, including service issues with our third-party shippers, could materially adversely affect our results.

Weather, natural disaster, fire, terrorism, pandemic, strikes, civil unrest, geopolitical events or other reasons could impair our ability to distribute products and conduct our business. If we are unable to manage effectively such events if they occur, there could be a material adverse effect on our business, financial condition or results of operations. Similarly, increases in service costs or service issues with our third-party shippers, including strikes or other service interruptions, could cause our operating expenses to rise and materially adversely affect our ability to deliver products on a timely basis. We ship almost all of our orders through third-party delivery services, and often times bear the cost of shipment. Our ability to provide same-day shipping and next-day delivery is an integral component of our business strategy and any significant increase in shipping rates or service interruptions could adversely impact our business, financial condition or results of operations.

We are dependent on our suppliers and exposed to the risks of their businesses, because we generally do not manufacture the products we sell.

We obtain substantially all of the products we distribute from third parties. If a supplier is unable to deliver product in a timely and efficient manner, whether due to financial difficulties, natural disasters, pandemics, the failure to comply with applicable government requirements or other reasons, we could experience lost sales.

There is considerable concentration within our animal health and dental businesses with a few key suppliers. In addition, a portion of the products we distribute is sourced, directly or indirectly, from countries outside the U.S. including China. Political or financial instability, increased tariffs, restrictions on trade, currency exchange rates, labor unrest, pandemics or other events could slow distribution activities, affect foreign trade beyond our control and adversely affect our results of operations.

We generally do not have long-term contracts with our suppliers, so they may be discontinued or changed abruptly. Changes in the structure of purchasing relationships might include changing from a “buy/sell” to an agency relationship (or the reverse), or changing the method in which products are taken to market, including the possibility of creating or expanding a direct sales force or otherwise reducing their reliance on third-party distribution channels. An extended interruption in the supply of products would have an adverse effect on our results of operations, and a reduction in our role as a value-added service provider would result in reduced margins on product sales.

The products we sell are subject to market and technological obsolescence; our software products may contain undetected errors or bugs when released.

Some of the products we distribute are subject to technological obsolescence outside of our control, since we do not manufacture the majority of the products we sell. If our customers discontinue purchasing a given product, we might have to record expense related to the diminution in value of inventories we have in stock, and depending on the magnitude, that expense could adversely impact our operating results.

Our software and applicable e-services products, like software products generally, may contain undetected errors or bugs when introduced, or as new versions are released. Any such defective software may result in increased expenses related to the software and could adversely affect our relationships with the customers using such software, as well as our reputation. We do not have any patents on our software or e-services, and rely upon copyright, trademark and trade secret laws, as well as contractual and common-law protections. We cannot provide assurance that such legal protections will be available, adequate or enforceable in a timely manner to protect our software or e-services products.

Adverse changes in supplier rebates could negatively affect our business.

The terms on which we purchase or sell products from many suppliers of animal health products may entitle us to receive a rebate based on the attainment of certain growth goals. Suppliers may reduce or eliminate rebates offered under their programs, or increase the growth goals or other conditions we must meet to earn rebates to levels that we cannot achieve. Increased competition either from generic or equivalent branded products could result in us failing to earn rebates that are conditioned upon achievement of growth goals. Additionally, factors outside of our control, such as customer preferences, consolidation of suppliers or supply issues, can have a material impact on our ability to achieve the growth goals established by our suppliers, which may reduce the amount of rebates we receive. The occurrence of any of these events could have an adverse impact on our results of operations.

Sales of private label products entail additional risks, including the risk that such sales could adversely affect our relationships with suppliers.

We offer certain private label products that are available exclusively from us. The sale of such products subjects us to the risks generally encountered by entities that source, market and sell private label products, including but not limited to potential product liability risks, mandatory or voluntary product recalls, potential supply chain and distribution chain disruptions, and potential intellectual property infringement risks. Any failure to adequately address some or all of these risks could have an adverse effect on our business, results of operations and financial condition.

In addition, an increase in the sales of our private label products may negatively affect our sales of products owned by our suppliers which, consequently, could adversely impact certain of our supplier relationships. Our ability to locate qualified, economically stable suppliers who satisfy our requirements, and to acquire sufficient products in a timely and effective manner, is critical to ensuring, among other things, that customer confidence is not diminished. As a distribution company, any failure to develop sourcing relationships with a broad and deep supplier base could adversely affect our financial performance and erode customer loyalty.

Patterson's continued success is substantially dependent on positive perceptions of Patterson's reputation.

One of the reasons why customers choose to do business with Patterson and why employees choose Patterson as a place of employment is the reputation that Patterson has built over many years. To be successful in the future, Patterson must continue to preserve, grow and leverage the value of Patterson's brand. Reputational value is based in large part on perceptions of subjective qualities. Even an isolated incident, or the aggregate effect of individually insignificant incidents, can erode trust and confidence, particularly if they result in adverse publicity, governmental investigations or litigation, and as a result, could tarnish Patterson's brand and lead to adverse effects on our business, financial condition and results of operations.

Risks inherent in asset or business acquisitions and dispositions could offset the anticipated benefits of such transactions, and we may face difficulty in efficiently and effectively integrating acquired businesses.

As a part of our business strategy, we acquire and dispose of assets and businesses in the ordinary course and may continue acquiring and disposing of assets and businesses in the future. These transactions can involve a number of risks and challenges, any of which could cause significant operating inefficiencies and adversely affect our growth and profitability, and may not result in the benefits and revenue growth we expect.

Acquisition risks and challenges include underperformance relative to our expectations and the price paid for the acquisition; unanticipated demands on our management and operational resources; difficulty in integrating personnel, operations and systems; retention of customers of the combined businesses; assumption of contingent liabilities; acquisition-related earnings charges; and acquisition-related cybersecurity risks. Additionally, when we decide to sell assets or a business, we may encounter difficulty in finding buyers or executing alternative exit strategies on acceptable terms in a timely manner, which could delay the accomplishment of our strategic objectives. Alternatively, we may dispose of assets or a business at a price or on terms that are less than we had anticipated. Dispositions may also involve continued financial involvement in a divested business, such as through continuing equity ownership, transition service agreements, guarantees, indemnities or other current or contingent financial obligations. Under these arrangements, performance by the acquired or divested business, or other conditions outside our control, could affect our future financial results.

As we operate through two strategic business units, we consolidate the distribution, information technology, human resources, financial and other administrative functions of those business units jointly to meet their needs while addressing distinctions in the individual markets of those segments. We may not be able to do so effectively and efficiently.

Our ability to continue to make acquisitions will depend upon our success in identifying suitable targets, which requires substantial judgment in assessing their values, strengths, weaknesses, liabilities and potential profitability, as well as the availability of suitable candidates at acceptable prices, whether restrictions are imposed by anti-trust or other regulations, and compliance with the terms and conditions of our credit agreement.

Our credit agreements contain restrictive covenants and additional limits and our other debt instruments contain cross-default provisions, which limit our business and financing activities.

The covenants under our credit agreements impose restrictions on our business and financing activities, subject to certain exceptions or the consent of our lenders, including, among other things, limits on our ability to incur additional debt, create liens, enter into merger, acquisition and divestiture transactions, pay dividends and engage in transactions with affiliates. The credit agreements contain certain customary affirmative covenants, including requirements that we maintain maximum consolidated leverage ratios and minimum consolidated interest coverage ratio, pursuant to which we may be affected by changes in interest rates, and customary events of default. The terms of agreements governing debt that we may incur in the future may also contain similar covenants.

Our ability to comply with these covenants may be adversely affected by events beyond our control, including economic, financial and industry conditions. A breach of the credit agreement covenants may result in an event of default, which could allow our lenders to terminate the commitments under the credit agreement, declare all amounts outstanding under the credit agreement, together with accrued interest, to be immediately due and payable, and exercise other rights and remedies, and, through cross-default provisions, would entitle our other lenders to accelerate their loans. If this occurs, we may not be able to refinance the accelerated indebtedness on acceptable terms, or at all, or otherwise repay the accelerated indebtedness.

Leadership development and succession planning are key to our future success.

While our Board of Directors and management actively monitor our succession plans and processes for our executive leadership team, our business could suffer if we lose key personnel unexpectedly. In addition, competition for senior management is intense and we may not be successful in attracting and retaining key personnel.

Our governing documents, other documents to which we are a party, and Minnesota law may discourage takeovers and business combinations that our shareholders might consider to be in their best interests.

Anti-takeover provisions of our articles of incorporation, bylaws, and Minnesota law could diminish the opportunity for shareholders to participate in acquisition proposals at a price above the then-current market price of our common stock. For example, while we have no present plans to issue any preferred stock, our Board of Directors, without further shareholder approval, may issue up to approximately 30 million shares of undesignated preferred stock and fix the powers, preferences, rights and limitations of such class or series, which could adversely affect the voting power of our common stock. Further, as a Minnesota corporation, we are subject to provisions of the Minnesota Business Corporation Act, or MBCA, regarding “control share acquisitions” and “business combinations.” We may also, in the future, consider adopting additional anti-takeover measures. In addition, certain equity plans predating our 2015 Omnibus Incentive Plan provide for acceleration of awards thereunder upon a change in control or other events of acceleration, as defined in those plans. The foregoing, and any future anti-takeover measures adopted by us, may, in certain circumstances, delay, deter or prevent takeover attempts and other changes in control of our company not approved by our Board of Directors.

INDUSTRY RISKS

The dental and animal health supply markets are highly competitive and consolidating, and we may not be able to compete successfully.

Our competitors include national, regional and local full-service distributors, mail-order distributors and Internet-based businesses. Some of our competitors have greater resources than we do, or operate through different sales and distribution models that could allow them to compete more successfully.

Most of the products we distribute are available from multiple sources, and our customers tend to have relationships with several different distributors who can fulfill their orders. If any of our competitors are more successful with respect to any key competitive factor such as technological advances or low-cost business models with the ability to operate at high gross margins, our sales and profitability could be adversely affected. Increased competition from any supplier of dental or animal health products could adversely impact our financial results. Additional competitive pressure could arise from, among other things, limited demand growth or a significant number of additional competitive products or services being introduced into a particular market, the emergence of new competitors, the unavailability of products, price reductions by competitors, and the ability of competitors to capitalize on their economies of scale. Manufacturers also could increase their efforts to sell directly to end-users and thereby eliminate or reduce the role of distributors. These suppliers could sell their products at lower prices and maintain a higher gross margin on product sales than we can. In addition, our ability to deliver market growth is challenged by an animal health product mix that is weighted toward lower growth, lower margin parts of the value chain.

Consolidation has increased among manufacturers as well as distributors, which could cause the industry to become more competitive as greater economies of scale are achieved by competitors, or as competitors with lower cost business models are able to offer lower prices but retain high gross margin. In addition, in recent years there has also been a trend towards consolidation in the industries that buy the products and services we distribute, including the consolidation of dental practices into larger clinics and dental service organizations, the consolidation of veterinary practices as well as producers, and the formation of group purchasing organizations, provider networks and buying groups designed to leverage volume discounts. We also face pricing pressure from branded pharmaceutical manufacturers which could adversely affect our sales and profitability. We may be unable to anticipate and effectively respond to competitive change, and our failure to compete effectively may limit and/or reduce our revenue, profitability and cash flow.

Our animal health segment is exposed to the risks of the production animal business, including changes in consumer demand for food animal products, the cyclical livestock market, and other factors outside our control.

Demand for our production animal health products can be negatively influenced by factors including: poor weather conditions such as drought, which raise feed prices and cause producers to reduce herd size; changes in consumer preferences away from food animal products; supply chain disruptions including due to cyberattack, as happened to meat company JBS SA in June 2021, or actions by animal rights activists; and outbreaks of diseases affecting animals, any of which could reduce herd sizes or affect consumer preferences. Reductions in herd size would ultimately decrease the demand for the products we distribute, including micro feed ingredients, animal health products, and dairy sanitation solutions, as well as the development and implementation of systems for feed, health, information and production animal management.

In addition, there has been consumer concern and consumer activism with respect to additives (including, without limitation, antibiotics and growth promotants) used in the production of animal products, including growing consumer sentiment for proteins and dairy products produced without the use of antibiotics or other products intended to increase animal production. These concerns have resulted in increased regulation and changing market demand. If there is an increased public perception that consumption of food derived from animals that utilize additives we distribute poses a risk to human health, there may be a further decline in the production of those food products and, in turn, our sales of those products. Furthermore, regulatory restrictions and bans could result in the removal from market of products in these categories, which would adversely affect the sales and could materially affect the results of operations from our animal health segment.

The formation of group purchasing organizations ("GPOs"), provider networks and buying groups may place us at a competitive disadvantage.

The formation of GPOs, provider networks and buying groups may shift purchasing decisions to entities or persons with whom we do not have a historical relationship and may threaten our ability to compete effectively, which could in turn negatively impact our financial results. As a full-service distributor with business service capabilities, we cannot guarantee that we will be able to successfully compete with price-oriented distribution models that more readily enable the pricing typically demanded by GPOs, provider networks and buying groups.

Increases in over-the-counter sales of and e-commerce options for companion animal products, or sales of companion animal products from non-veterinarian sources, could adversely affect our business.

Companion animal health products are becoming increasingly available to consumers at competitive prices from sources other than veterinarians, including human health product pharmacies, Internet pharmacies and big-box retailers, and consumers are increasingly seeking such alternatives sources of supply for their companion animal health products. Additionally, major U.S. online e-commerce retailers such as Amazon and Chewy.com are becoming licensed as veterinary mail order pharmacies to offer pharmacy products directly to consumers in all 50 U.S. states. Even where prescriptions must be written by a veterinarian, companion animal owners may shift to these services for home delivery. In addition, companion animal owners may substitute human health products for animal-health products if they deem human health products to be acceptable, lower-cost alternatives.

Decreased emphasis on veterinary visits, and increased consumer choice through familiar e-commerce retailers could reduce demand for veterinarian-based services and have a material adverse impact on our business. The continued advancement of online commerce by third parties will require us to cost-effectively adapt to changing technologies, to enhance existing services and to differentiate our business (including with additional value-added services) to address changing demands of consumers and our customers on a timely basis. The emergence of such competition and our inability to anticipate and effectively respond to changes on a timely basis could have a material adverse effect on our business.

REGULATORY AND LITIGATION RISKS

Change and uncertainty in the health care industry, including continued implementation of the Health Care Reform, could materially adversely affect our business.

Laws and regulations affecting the health care industry in the U.S. have changed dramatically in recent years, and we expect that future and pending legislation, rulemaking, and court decisions on legal challenges to the Health Care Reform Law will further change the landscape. Foreign government authorities may also adopt reforms of their health systems. We cannot predict what further reform proposals, if any, will be adopted, when they may be adopted, or what impact they may have on us. The continued uncertain status of the Health Care Reform Law affects our ability to plan.

Recently, there has been increased scrutiny on drug pricing and concurrent efforts to control or reduce drug costs by Congress, the President, and various states, including several bills that have been introduced on a federal level. Such legislation, if enacted, could have the potential to impose additional costs on our business.

One provision of the Health Care Reform Law, the Sunshine Act, requires us to collect and report detailed information regarding certain financial relationships we have with covered recipients such as physicians, dentists and teaching hospitals. We may also be required to report under certain state transparency laws that address circumstances not covered by the Sunshine Act, and some of these state laws, as well as the federal law, can be ambiguous. We are also subject to foreign regulations requiring transparency of certain interactions between suppliers and their customers. Our compliance with these rules imposes additional costs on us. In the U.S., government actions to seek to increase health-related price transparency may also affect our business.

Failure to comply with existing and future U.S. and foreign laws and regulatory requirements, including those governing the distribution of pharmaceuticals and controlled substances, could subject us to claims or otherwise harm our business.

Our business is subject to additional requirements under various local, state, federal and international laws and regulations applicable to the sale and distribution of, and third-party payment for, pharmaceuticals and medical devices, and human cells, tissue and cellular and tissue-based products ("HCT/P products") and animal feed and supplements. Among other things, such laws, and the regulations promulgated thereunder:

- regulate the storage and distribution, labeling, packaging, handling, reporting, record keeping, introduction, manufacturing and marketing of drugs, HCT/P products and medical devices, including requirements with respect to unique medical device identifiers;
- subject us to inspection by the U.S. Food and Drug Administration ("FDA") and the U.S. Drug Enforcement Administration (the "DEA") and similar state authorities;
- regulate the storage, transportation and disposal of certain products that are considered hazardous materials;
- regulate the distribution and storage of pharmaceuticals and controlled substances;
- require us to advertise and promote our drugs and devices in accordance with applicable FDA requirements;
- require registration with the FDA and the DEA and various state agencies;
- require record keeping and documentation of transactions involving drug products;
- require us to design and operate a system to identify and report suspicious orders of controlled substances to the DEA;
- require us to manage returns of products that have been recalled and subject us to inspection of our recall procedures and activities;
- impose on us reporting requirements if a pharmaceutical, HCT/P product or medical device causes serious illness, injury or death.
- require manufacturers, wholesalers, repackagers and dispensers of prescription drugs to identify and trace certain prescription drugs as they are distributed;
- require the licensing of prescription drug wholesalers and third-party logistics providers; and
- mandate compliance with standards for the recordkeeping, storage and handling of prescription drugs, and associated reporting requirements.

There also have been increasing efforts by Congress and state and federal agencies, including state boards of pharmacy, departments of health, and the FDA, to regulate the pharmaceutical distribution system. The failure to comply with any of these laws and regulations, or new interpretations of existing laws and regulations, or the imposition of any additional laws and regulations, could materially adversely affect our business. If it is determined that we have not complied with these laws, we are potentially subject to penalties including warning letters, substantial civil and criminal fines and penalties, mandatory recall of product, seizure of product and injunction, consent decrees, and suspension or limitation of product sale and distribution, all of which could have a material adverse effect on our business. If we enter into settlement agreements to resolve allegations of non-compliance, we could be required to make settlement payments or be subject to civil and criminal penalties, including fines and the loss of licenses. Non-compliance with government requirements could also adversely affect our ability to participate in federal and state government health care programs, such as Medicare and Medicaid, and damage our reputation.

For example, as disclosed in our prior periodic reports, our subsidiary Animal Health International was recently the subject of an investigation by the U.S. Attorney's Office for the Western District of Virginia, which resulted in Animal Health International pleading guilty to a strict-liability misdemeanor offense in connection with its failure to comply with federal law relating to the sales of prescription animal health products, and a total criminal fine and forfeiture of $52.8 million. In addition, Animal Health International and Patterson entered into a non-prosecution agreement for other non-compliant licensing, dispensing, distribution and related sales processes disclosed during the investigation and committed to undertake additional compliance program enhancements and provide compliance certifications through fiscal 2023. This matter may continue to divert management's attention and cause us to suffer reputational harm. We also may be subject to other fines or penalties, equitable remedies (including but not limited to the suspension, revocation or non-renewal of licenses) and litigation. The occurrence of any of these events could adversely affect our business, financial condition and results of operations.

Public concern over the abuse of opioid medications in the U.S., including increased legal and regulatory action, could negatively affect our business.

Certain governmental and regulatory agencies, as well as state and local jurisdictions, are focused on the abuse of opioid medications in the U.S. Federal, state and local governmental and regulatory agencies are conducting investigations of pharmaceutical manufacturers and other pharmaceutical wholesale distributors regarding the distribution of opioid medications.

While our subsidiaries have been dismissed without prejudice from national class-action opiate litigation, as disclosed in our prior periodic reports, we could face similar civil claims or governmental investigations in the future. Managing legal proceedings and responding to government investigations is costly and involves a significant diversion of management attention. Such proceedings are unpredictable and may develop over lengthy periods of time. An adverse resolution of lawsuits or investigations may involve substantial monetary penalties and could have a material and adverse effect on our reputation, business, financial condition and results of operations.

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

We are subject to federal and state (and similar foreign) health care fraud and abuse, referral and reimbursement laws and regulations, including those referred to as “false claims laws” and “anti-kickback” laws. Health care fraud measures may implicate, for example, our relationships with pharmaceutical manufacturers, our pricing and incentive programs for physician and dental practices, and our practice management products that offer billing-related functionality.

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

We are subject to a variety of litigation that could adversely affect our results of operations and financial condition.

We are subject to a variety of litigation incidental to our business, including product liability claims, intellectual property claims, employment claims, commercial disputes, governmental inquiries and investigations, and other matters arising out of the ordinary course of our business, including securities litigation. From time to time we are named as a defendant in cases as a result of our distribution of products. Additionally, purchasers of private-label products may seek recourse directly from us, rather than the ultimate product manufacturer, for product-related claims. Another potential risk we face in the distribution of products is liability resulting from counterfeit or tainted products infiltrating the supply chain. In addition, some of the products that we transport and sell are considered hazardous materials. The improper handling of such materials or accidents involving the transportation of such materials could subject us to liability or legal action that could harm our reputation.

Defending against such claims may divert our management's attention, may be expensive, and may require that we pay damage awards or settlements, pay fines or penalties, or become subject to equitable remedies (including but not limited to the revocation of or non-renewal of licenses) that could adversely affect our business, financial condition and results of operations. A successful claim brought against us in excess of available insurance or not covered by insurance or indemnification agreements, or any claim that results in significant adverse publicity against us, could have a material adverse effect on our business and our reputation. Furthermore, the outcome of litigation is inherently uncertain.

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

Our practice management products and services include electronic information technology systems that store and process personal health, clinical, financial and other sensitive information of individuals. Both we and our customers are subject to numerous and evolving laws, regulations and industry standards, such as HIPAA and the Payment Card Industry Data Security Standards, which require the protection of the privacy and security of those records. Furthermore, our products may be used as part of our customers' comprehensive data security programs, including in connection with their efforts to comply with applicable privacy and security laws. We are also subject to non-healthcare-specific requirements of the countries and states in which we operate which govern the handling, storage, use and protection of personal information, such as the California Consumer Privacy Act, or CCPA, which is a state statute intended to enhance privacy rights and consumer protection for residents of California, the California Privacy Rights Act, or CPRA, that will become effective on January 1, 2023, and the pan-European General Data Protection Regulation, or GDPR.

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

Both in the U.S. and abroad, these laws and regulations continue to evolve and remain subject to significant change. In addition, the application and interpretation of these laws and regulations are often uncertain. If we fail to comply with such laws and regulations, we could be required to make significant changes to our products or services, or incur substantial fines, penalties, or other liabilities. The costs of compliance with, and the other burdens imposed by, new or existing laws or regulatory actions may prevent us from selling the products or services we distribute, or increase the costs of doing so, and may affect our decision to distribute such products or services. Also, evolving laws and regulations in this area could restrict the ability of our customers to obtain, use or disseminate patient information, or could require us to incur significant additional costs to conform to these legal requirements, either of which could have a material adverse effect on our operations.

In addition, the products and services we distribute may be vulnerable to breakdown, wrongful intrusions, data breaches and malicious attack. Perceived or actual security vulnerabilities in these products or services, or the perceived or actual failure by us or our customers who use these products or services to comply with applicable legal or contractual data privacy or security requirements, may not only cause reputational harm and loss of business, but may also lead to claims against us by our customers and/or governmental agencies and involve substantial damages, fines, penalties and other liabilities and expenses and costs for remediation.

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

We are subject to the tax laws and regulations of the United States federal, state and local governments, as well as foreign jurisdictions which are extremely complex and subject to varying interpretations. From time to time, various legislative initiatives may be proposed that could materially adversely affect our tax positions. There can be no assurance that our effective tax rate will not be materially adversely affected by legislation resulting from these initiatives. In addition, although we believe that our historical tax positions are sound and consistent with applicable laws, regulations and existing precedent, there can be no assurance that our tax positions will not be challenged by relevant tax authorities or that we would be successful in any such challenge.

Our international operations are subject to inherent risks that could adversely affect our operating results.

There are a number of risks inherent in foreign operations, including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act, complex regulatory requirements, staffing and management complexities, import and export costs, other economic factors and political considerations, all of which are subject to unanticipated changes.

Our foreign operations also expose us to foreign currency fluctuations. Because our financial statements are denominated in U.S. dollars, changes in currency exchange rates between the U.S. dollar and other currencies will have an impact on our income. Currency exchange rate fluctuations may adversely affect our results of operations and financial condition. Furthermore, we generally do not hedge translation exposure with respect to foreign operations.

GENERAL RISKS

Risks generally associated with information systems and cyber-security attacks could adversely affect our results of operations.

We rely on information systems (“IS”) in our business to obtain, rapidly process, analyze and store customer, product, supplier, and employee data to conduct our business. However, our IS are vulnerable to natural disasters, power losses, computer viruses, telecommunication failures, cybersecurity threats, and other problems. We increasingly rely upon server- and Internet-based technologies to run our business and to store our data and our customers’ data, which depends on continuous Internet access in order to run our business and may carry additional cyber-security risks relative to those posed by legacy technologies.

Despite our efforts to ensure the integrity of our systems, as cyber threats evolve and become more difficult to detect and successfully defend against, one or more cyber threats might defeat the measures that we or our vendors take to anticipate, detect, avoid or mitigate such threats. Data breaches and any unauthorized access or disclosure of our information could compromise our intellectual property and expose sensitive business information. Cyber-attacks could also cause us to incur significant remediation costs, disrupt key business operations, and divert attention of management.

Further, our suppliers, our customers, and other market participants are similarly subject to information system and cybersecurity risk, and a material disruption in their business could result in reduced revenue for us. For example, in June 2021 a ransomware attack on Brazil-based JBS SA, the world’s largest meat company by sales, took a significant portion of U.S. beef and pork processing offline, disrupting markets.

In addition, compliance with evolving privacy and information security laws and standards may result in significant additional expense due to increased investment in technology and the development of new operational processes. We could be subject to liability for failure to comply with these laws and standards, failure to protect information, or failure to respond appropriately to an incident or misuse of information, including use of information for unauthorized marketing purposes.

Our results of operations and cash flows could be adversely affected if our IS are interrupted, damaged by unforeseen events, are subject to cyber-security attacks, or fail for any extended period of time. Disaster recovery plans, where in place, might not adequately protect us in the event of a system failure. Despite any precautions we take, damage from fire, floods, hurricanes, power loss, telecommunications failures, computer viruses, break-ins and similar events at our various computer facilities could result in interruptions in the flow of data to our servers. We may need to expend additional resources in the future to continue to protect against, or to address problems caused by, any business interruptions or data security breaches.

We may experience significant disruptions in our operations resulting from our enterprise resource planning system.

We depend on our information technology systems and our financial shared services for the efficient functioning of our business, including accounting, billing, data storage, purchasing and inventory management. In addition, we have implemented an enterprise resource planning (“ERP”) system across certain significant operating locations to support our operations. The operation of this ERP system requires the investment of human and financial resources. We have incurred and expect to continue to incur expenses as we continue to enhance and develop our ERP system. As a result of our ERP system, we may encounter difficulties in operating our business, which could disrupt our operations, including our ability to timely ship and track customer orders, determine inventory requirements, manage our supply chain, manage customer billing and otherwise adequately service our customers, and lead to increased costs and other difficulties. If we experience significant disruptions resulting from our ERP system, such events may disrupt or reduce the efficiency of our entire operation and have a material adverse effect on our operating results and cash flows.

In fiscal 2020, we recorded impairment charges that eliminated our Animal Health segment’s goodwill, and we may be required in the future to record a significant charge to earnings if our Dental segment’s goodwill or other intangible assets become impaired.

Our balance sheet includes goodwill and other identifiable intangible assets. We recorded a $269.0 million non-cash pre-tax goodwill impairment charge in our Animal Health segment as part of management’s annual goodwill and other indefinite-lived intangible asset impairment tests using the beginning of our fiscal 2020 fourth quarter as the valuation date. Due to the effects of the COVID-19 pandemic, we tested our goodwill for impairment again in April 2020 and recorded an additional $406.1 million non-cash pre-tax impairment charge of our Animal Health reporting unit’s goodwill, based on management’s estimates of future cash flows, driven by reduced sales volumes, as well as reduced EBITDA multiples of comparable companies. As of April 25, 2020, our Animal Health reporting unit had no remaining goodwill as a result of the total goodwill impairment charges recorded in the fourth quarter of fiscal 2020 of $675.1 million. If future impairment of our Dental segment’s goodwill or other identifiable intangible assets is determined, we may be required to record a significant charge to earnings in the period of such determination under U.S. generally accepted accounting principles.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

We own our principal executive offices in St. Paul, Minnesota, and the majority of our distribution facilities. Leases of other distribution and administrative facilities generally are on a long-term basis, expiring at various times, with options to renew for additional periods. Most sales offices are leased for varying and usually shorter periods, with or without renewal options. We believe our properties are in good operating condition and are suitable for the purposes for which they are being used.

Patterson Logistics Services

The majority of assets we use to distribute product are owned and operated by Patterson Logistics Services, Inc. (“PLSI”), a wholly-owned subsidiary, which operates the distribution function for the benefit of our dental and animal health segments in the U.S. PLSI also advises on the operations of our fulfillment centers outside of the U.S., but these properties are not owned by PLSI.

As of April 24, 2021, PLSI operated the following 13 fulfillment centers (seven primary centers) totaling 1.0 million square feet:

- two dental fulfillment centers (Hawaii and Texas);
- four animal health fulfillment centers (Alabama, Colorado and Texas (two)); and
- seven fulfillment centers that distribute dental and animal health products (California, Florida, Indiana, Iowa, Pennsylvania, South Carolina and Washington).

Approximately 90% of the PLSI fulfillment center space is owned.

Dental

The Dental segment is headquartered in our principal executive offices, and maintains sales and administrative offices at approximately 59 locations across 39 states in the U.S. and 10 locations in Canada, the majority of which are leased. Operations in Canada are supported by fulfillment centers located in Quebec and Alberta. In addition, this segment operates the Patterson Technology Center, a 100,000 square-foot facility in Illinois.

Animal Health

In addition to the locations operated by PLSI, Patterson Animal Health has approximately 100 properties located in the U.S., Canada and the U.K., the majority of which are leased. In the U.S., these properties are in 82 locations across 28 states, and comprise fulfillment centers, storage locations, sales and administrative offices, retail stores and call centers. In Canada, operations are supported by two fulfillment centers located in Alberta and Ontario. The segment's operations in the U.K. are supported by a primary distribution facility in Stoke-on-Trent and an additional nine depots used as secondary distribution points and 4 laboratory sites throughout the U.K. The headquarters for this segment are located in a leased office in Colorado.

Item 3. LEGAL PROCEEDINGS

For a discussion of Legal Proceedings, see Note 16 - Litigation of the Notes to the Consolidated Financial Statements included under Item 8.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Patterson's common stock trades on the NASDAQ Global Select Market® under the symbol "PDCO."

Holders

On June 16, 2021, the number of holders on record of common stock was 1,709. The transfer agent for Patterson's common stock is EQ Shareowner Services, 1110 Centre Pointe Curve, Suite 101, Mendota Heights, Minnesota 55120, telephone: (800) 468-9716.

Dividends

In fiscal 2021, a quarterly cash dividend of $0.26 per share was declared throughout the year. In fiscal 2021, dividends were declared each quarter, with payment occurring in the subsequent quarter. We currently expect to declare and pay quarterly cash dividends in the future, but any future dividends will be subject to approval by our Board of Directors, which will depend on our earnings, capital requirements, operating results and financial condition, as well as applicable law, regulatory constraints, industry practice and other business considerations that our Board considers relevant. We are also subject to various financial covenants under our debt agreements including the maintenance of leverage and interest coverage ratios. The terms of agreements governing debt that we may incur in the future may also contain similar covenants. Accordingly, there can be no assurance that we will declare and pay dividends in the future at the same rate or at all.

Securities Authorized for Issuance Under Equity Compensation Plans

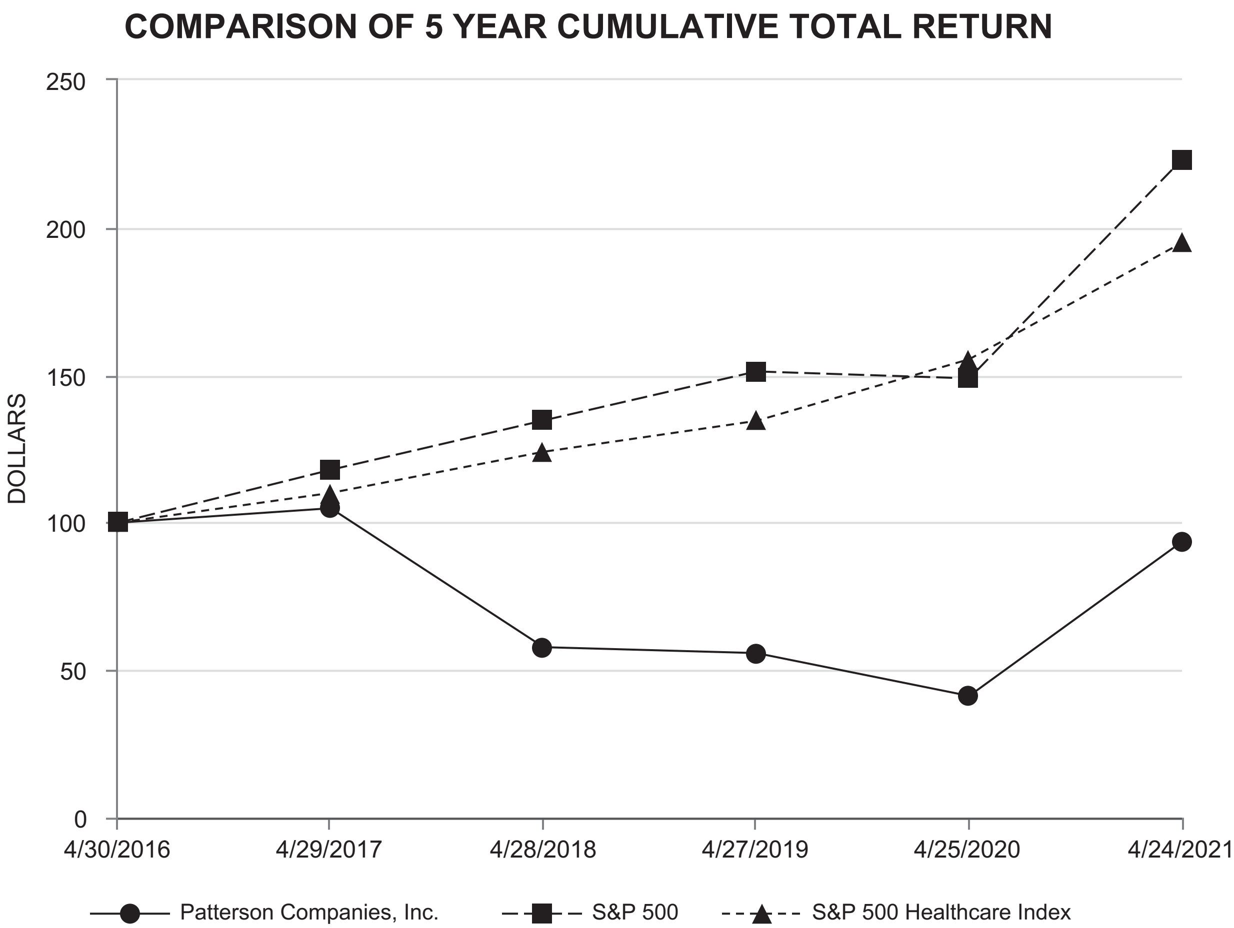
For information relating to securities authorized for issuance under equity compensation plans, see Part III, Item 12.

Purchases of Equity Securities by the Issuer

On March 16, 2021, the Board of Directors authorized a $500 million share repurchase program through March 16, 2024. No shares were repurchased under the stock repurchase plan during fiscal 2021.

Performance Graph

The graph below compares the cumulative total shareholder return on $100 invested at the market close on April 30, 2016, through April 24, 2021, with the cumulative return over the same time period on the same amount invested in the S&P 500 Index and the S&P 500 Healthcare Index.



	Fiscal Year Ending					
	4/30/2016	4/29/2017	4/28/2018	4/27/2019	4/25/2020	4/24/2021
Patterson Companies, Inc.	100.00	104.90	57.81	55.81	41.28	93.56
S&P 500	100.00	117.92	134.66	151.27	148.91	223.11
S&P 500 Healthcare Index	100.00	110.09	124.04	134.51	155.40	194.89

Item 6. SELECTED CONSOLIDATED FINANCIAL DATA

Not applicable.

Item 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Our financial information for fiscal 2021 is summarized in this Management’s Discussion and Analysis and the Consolidated Financial Statements and related Notes. The following background is provided to readers to assist in the review of our financial information.

We present three reportable segments: Dental, Animal Health and Corporate. Dental and Animal Health are strategic business units that offer similar products and services to different customer bases. Dental provides a virtually complete range of consumable dental products, equipment and software, turnkey digital solutions and value-added services to dentists and dental laboratories throughout North America. Animal Health is a leading, full-line distributor in North America and the U.K. of animal health products, services and technologies to both the production-animal and companion-pet markets. Our Corporate segment is comprised of general and administrative expenses, including home office support costs in areas such as information technology, finance, legal, human resources and facilities. In addition, customer financing and other miscellaneous sales are reported within Corporate results.

Operating margins of the animal health business are lower than the dental business. While operating expenses run at a lower rate in the animal health business when compared to the dental business, gross margins in the animal health business are lower due generally to the low margins experienced on the sale of pharmaceutical products.

We operate with a 52-53 week accounting convention with our fiscal year ending on the last Saturday in April. Fiscal 2021, 2020 and 2019 ended on April 24, 2021, April 25, 2020 and April 27, 2019, respectively, and all years consisted of 52 weeks. Fiscal 2022 will end on April 30, 2022 and will consist of 53 weeks.

We believe there are several important aspects of our business that are useful in analyzing it, including: (1) growth in the various markets in which we operate; (2) internal growth; (3) growth through acquisition; and (4) continued focus on controlling costs and enhancing efficiency. Management defines internal growth as net sales adjusted to exclude the impact of foreign currency and changes in product selling relationships. Foreign currency impact represents the difference in results that is attributable to fluctuations in currency exchange rates the company uses to convert results for all foreign entities where the functional currency is not the U.S. dollar. The company calculates the impact as the difference between the current period results translated using the current period currency exchange rates and using the comparable prior period’s currency exchange rates. The company believes the disclosure of net sales changes in constant currency provides useful supplementary information to investors in light of significant fluctuations in currency rates.

Factors Affecting Our Results

COVID-19. The COVID-19 pandemic, including closures and other steps taken by governmental authorities in response to the virus, has had a significant impact on our businesses. As part of our broad-based effort to respond to the COVID-19 pandemic, we implemented cost reduction measures, including temporary salary reductions, furloughs and reduced work hours across our workforce during the period from May 1, 2020 through July 31, 2020. Within our Dental segment, the effect became less significant during the first quarter of fiscal 2021, as dental offices began opening for elective procedures. In addition, we recorded increased sales of infection control products during fiscal 2021, but also absorbed higher levels of inventory adjustments as market prices fluctuated throughout the fiscal year. The disruptions we experienced in our production animal business as a result of the pandemic became less significant after the first quarter of fiscal 2021.

Goodwill Impairment. In the fourth quarter of fiscal 2020, we recorded non-cash pre-tax goodwill impairment charges totaling $675.1 million in our Animal Health segment ("Goodwill Impairment"), which were not fully tax deductible. The decrease in the fair value of the Animal Health reporting unit below its carrying value was mainly the result of a reduction in management’s estimates of future cash flows. Future cash flows were affected by a reduction in future sales volume and operating margins. The sales volume estimate reflected recent sales trends we had experienced. Future operating margins were expected to be lower based on then-current trends in our markets. These trends were driven by customer and vendor consolidation. We experienced a further decrease in the fair value of the Animal Health reporting unit subsequent to our annual goodwill impairment test, which was caused by additional reductions in management’s estimates of future cash flows, driven by reduced sales volumes, as well as reduced EBITDA multiples of comparable companies. These estimates and market multiples were negatively affected by COVID-19. In fiscal 2020, the animal health industry experienced a reduction in sales volume as a result of stay at home and shelter in place orders, as well as a result of meat packing plant closures. Our future cash flow estimates for this business unit in fiscal 2020 reflected the long-term impact of COVID-19.

Receivables Securitization Program. We are a party to certain receivables purchase agreements with MUFG Bank, Ltd. ("MUFG"), under which MUFG acts as an agent to facilitate the sale of certain Patterson receivables (the “Receivables”) to certain unaffiliated financial institutions (the “Purchasers”). The proceeds from the sale of these Receivables comprise a combination of cash and a deferred purchase price (“DPP”) receivable. The DPP receivable is ultimately realized by Patterson following the collection of the underlying Receivables sold to the Purchasers. The collection of the DPP receivable is recognized as an increase to net cash provided by investing activities within the consolidated statements of cash flows, with a corresponding reduction to net cash (used in) provided by operating activities within the consolidated statements of cash flows.

Gain on Investment. We recorded a pre-tax gain of $34.3 million related to one of our investments ("Gain on Investment") in fiscal 2020. This gain was based on the selling price of preferred stock in this investment that is similar to the preferred stock we own, and was adjusted for differences in liquidation preferences.

Early Repayment of Debt. In fiscal 2020, we repaid certain indebtedness totaling $373.8 million ("Early Repayment of Debt"). As a result, we recorded a pre-tax non-cash charge of $9.0 million during fiscal 2020. This charge relates to the January 2014 forward interest rate swap agreement and accelerated amortization of debt issuance costs.

Fiscal 2020 U.S. Attorney's Office Legal Reserve. We incurred costs and expenses of $58.3 million ("Fiscal 2020 U.S. Attorney's Office Legal Reserve") during the second quarter of fiscal 2020 related to the then-probable settlement of litigation with the U.S. Attorney's Office for the Western District of Virginia, which were recorded within operating expenses in the consolidated statements of operations and other comprehensive income in our Corporate segment. The settlement amount was fully paid in fiscal 2020.

Fiscal 2020 Legal Reserve. We incurred expenses of $17.7 million ("Fiscal 2020 SourceOne Dental Legal Reserve") during the first quarter of fiscal 2020 related to the settlement of litigation with SourceOne Dental, Inc., which were recorded within operating expenses in the consolidated statements of operations and other comprehensive income in our Corporate segment. The settlement amount was fully paid in fiscal 2020.

Fiscal 2019 Legal Reserve. In September 2018, we signed an agreement to settle the litigation entitled In re Dental Supplies Antitrust Litigation. Under the terms of the settlement, we paid $28.3 million into escrow upon preliminary court approval. Such funds were to be released to the settlement fund administrator upon final court approval of the settlement, which was granted at the fairness hearing held on June 24, 2019, at which time the settlement amount became fully paid. We established a pre-tax reserve of $28.3 million in fiscal 2019 to account for the settlement of this matter.

Results of Operations

The following table summarizes our results as a percent of net sales:

	Fiscal Year Ended		
	April 24, 2021	April 25, 2020	April 27, 2019
Net sales	100.0 %	100.0 %	100.0 %
Cost of sales	79.6	78.2	78.6
Gross profit	20.4	21.8	21.4
Operating expenses	16.8	19.9	18.9
Goodwill impairment	—	12.3	—
Operating income (loss)	3.6	(10.4)	2.5
Other expense, net	(0.2)	(0.4)	(0.6)
Income (loss) before taxes	3.4	(10.8)	1.9
Income tax expense (benefit)	0.8	(0.1)	0.4
Net income (loss)	2.6	(10.7)	1.5
Net loss attributable to noncontrolling interests	—	—	—
Net income (loss) attributable to Patterson Companies, Inc.	2.6 %	(10.7)%	1.5 %

Fiscal 2021 Compared to Fiscal 2020

Net sales. Consolidated net sales in fiscal 2021 were $5,912.1 million, an increase of 7.7% from $5,490.0 million in fiscal 2020. Foreign exchange rate changes had a favorable impact of 0.5% on fiscal 2021 sales. Sales of certain products previously recognized on a gross basis were recognized on a net basis during fiscal 2021, resulting in an estimated 1.0% unfavorable impact to sales. This change in revenue recognition was driven by changes in contractual terms with certain suppliers.

Dental segment sales increased 10.7% to $2,327.0 million in fiscal 2021 from $2,101.9 million in fiscal 2020. Foreign exchange rate changes had a favorable impact of 0.3% on fiscal 2021 sales. Sales of consumables increased 15.2%, sales of equipment and software increased 7.9%, and sales of value-added services and other decreased 0.5% in fiscal 2021. While Dental segment sales were negatively affected by the COVID-19 pandemic during fiscal 2021, we recorded increased sales of infection control products during this period compared to fiscal 2020 within consumable sales.

Animal Health segment sales increased 6.7% to $3,560.0 million in fiscal 2021 from $3,336.3 million in fiscal 2020. Foreign exchange rate changes had a favorable impact of 0.7% on fiscal 2021 sales. Sales of certain products previously recognized on a gross basis were recognized on a net basis during fiscal 2021, resulting in an estimated 1.7% unfavorable impact to sales. This change in revenue recognition was driven by changes in contractual terms with certain suppliers. Sales were higher in fiscal 2021 as compared to fiscal 2020, driven by increased sales in our companion animal business.

Gross profit. Consolidated gross profit margin decreased 140 basis points from the prior year to 20.4%. Gross profit margin rates decreased in both the Dental and Animal Health segment. Our Dental segment rate was negatively impacted by inventory adjustments related to infection control products, as well as a higher LIFO reserve in fiscal 2021 as compared to fiscal 2020. The LIFO reserve expense recorded in fiscal 2021 in our Dental segment was approximately $12.0 million. Our Animal Health segment rate was negatively impacted by lower transactional margins as compared to fiscal 2020.

Operating expenses. Consolidated operating expenses for fiscal 2021 were $992.5 million, a 9.3% decrease from the prior year of $1,094.5 million. We incurred lower operating expenses during fiscal 2021 primarily as a result of lower legal fees and settlements, travel expenses and personnel costs. Lower personnel costs were driven by our implementation of temporary salary reductions, furloughs and reduced work hours across our workforce during the period from May 1, 2020 through July 31, 2020.

Goodwill impairment. In fiscal 2020, we recorded goodwill impairment charges totaling $675.1 million in our Animal Health segment.

Operating income (loss). Consolidated operating income was $210.6 million in fiscal 2021, compared to an operating loss of $572.1 million in fiscal 2020. The change in operating income (loss) from fiscal 2020 was driven by the Goodwill Impairment, as well as lower legal fees and settlements, travel expenses and personnel costs incurred in fiscal 2021.

Dental segment operating income was $201.2 million for fiscal 2021, an increase of $32.9 million from fiscal 2020. The increase was primarily driven by higher net sales, as well as lower personnel costs and travel expenses, during fiscal 2021.

Animal Health segment operating income was $88.1 million for fiscal 2021, as compared to an operating loss of $594.7 million for fiscal 2020. The change was primarily driven by the Goodwill Impairment in fiscal 2020 and higher net sales in fiscal 2021.

Corporate segment operating loss was $78.8 million for fiscal 2021, as compared to a loss of $145.7 million for fiscal 2020. The change was driven primarily by lower legal fees and settlements during fiscal 2021, as well as lower customer financing net sales.

Other income (expense), net. Net other expense was $10.7 million in fiscal 2021, compared to $18.3 million in fiscal 2020. The difference in other income (expense) was primarily driven by the Gain on Investment recorded during fiscal 2020, partially offset by higher interest expense incurred during fiscal 2020, which was driven by the Early Repayment of Debt during fiscal 2020. In addition, we incurred lower losses on our interest rate swap agreements during fiscal 2021.

Income tax expense (benefit). The effective income tax rate for fiscal 2021 was 22.4%. In fiscal 2020, the income tax benefit was $1.0 million on a loss before taxes of $590.4 million. The Goodwill Impairment and the Fiscal 2020 U.S. Attorney's Office Legal Reserve were not fully deductible in fiscal 2020.

Net income (loss) attributable to Patterson Companies, Inc. and earnings (loss) per share. Net earnings attributable to Patterson Companies Inc. was $156.0 million in fiscal 2021, compared to a net loss attributable to Patterson Companies Inc. of $588.4 million in fiscal 2020. Earnings per diluted share were $1.61 in fiscal 2021, compared to a loss per diluted share of $6.25 in fiscal 2020. Weighted average diluted shares in fiscal 2021 were 96.7 million, compared to 94.2 million in fiscal 2020. The fiscal 2021 and fiscal 2020 cash dividend declared was $1.04 per common share.

Fiscal 2020 Compared to Fiscal 2019

See Item 7 in our 2020 Annual Report on Form 10-K filed June 24, 2020.

Liquidity and Capital Resources

Net cash used in operating activities was $730.5 million in fiscal 2021, compared to $243.5 million in fiscal 2020. Net cash provided by operating activities was $48.2 million in fiscal 2019. Net cash used in operating activities in fiscal 2021 was primarily due to the impact of our Receivables Securitization Program, as well as an increase in accounts payable. Net cash used in operating activities in fiscal 2020 was primarily due to the impact of our Receivables Securitization Program, partially offset by a reduction in working capital, which was driven mainly by an increase in accounts payable. Net cash provided by operating activities in fiscal 2019 was primarily driven by a reduction in working capital, partially offset by the impact of our Receivables Securitization Program.

Net cash provided by investing activities was $810.7 million in fiscal 2021, compared to $499.1 million in fiscal 2020 and $340.7 million in fiscal 2019. Collections of deferred purchase price receivables were $834.0 million, $540.9 million and $402.4 million in fiscal 2021, 2020 and 2019, respectively. Capital expenditures were $25.8 million, $41.8 million and $60.7 million in fiscal 2021, 2020 and 2019, respectively. Capital expenditures in fiscal 2019 included a $14.9 million investment to convert leased property into owned property. We expect to use a total of approximately $50 million for capital expenditures in fiscal 2022.

Net cash used in financing activities in fiscal 2021 was $22.6 million, driven by $75.2 million for dividend payments, partially offset by $53.0 million attributed to draws on our revolving line of credit. Net cash used in financing activities in fiscal 2020 was $271.2 million. Uses of cash consisted primarily of $460.8 million for the retirement of long-term debt and $100.4 million for dividend payments. In December 2019, we entered into a $300.0 million senior unsecured term loan facility, as described further below. Net cash used in financing activities in fiscal 2019 was $355.2 million. Uses of cash consisted primarily of $249.5 million for the retirement of long-term debt and $99.5 million for dividend payments.

In fiscal 2021, a quarterly cash dividend of $0.26 per share was declared throughout the year. In fiscal 2021, dividends were declared each quarter, with payment occurring in the subsequent quarter. We currently expect to declare and pay quarterly cash dividends in the future, but any future dividends will be subject to approval by our Board of Directors, which will depend on our earnings, capital requirements, operating results and financial condition, as well as applicable law, regulatory constraints, industry practice and other business considerations that our Board considers relevant. We are also subject to various financial covenants under our debt agreements including the maintenance of leverage and interest coverage ratios. The terms of agreements governing debt that we may incur in the future may also contain similar covenants. Accordingly, there can be no assurance that we will declare and pay dividends in the future at the same rate or at all.

In fiscal 2017, we entered into an amended credit agreement (“Amended Credit Agreement”), consisting of a $295.1 million term loan and a $750.0 million revolving line of credit. In March 2019, we permanently reduced the capacity under the revolving line of credit to $500.0 million. Interest on borrowings was variable and was determined as a base rate plus a spread. This spread, as well as a commitment fee on the unused portion of the facility, was based on our leverage ratio, as defined in the Amended Credit Agreement. During the quarter ended October 26, 2019, we repaid the remaining $81.6 million outstanding under the unsecured term loan.

In December 2019, we entered into a senior unsecured term loan facility agreement (the “Term Facility Agreement”), consisting of a $300.0 million term loan. Interest on borrowings was variable and was determined as a base rate plus a spread. This spread was based on our leverage ratio, as defined in the Term Facility Agreement. The proceeds were used to repay certain existing indebtedness, pay fees and expenses incurred in connection with the Term Facility Agreement, and finance our ongoing working capital and other general corporate purposes. The Term Facility was set to mature no later than December 20, 2022. As of April 25, 2020, $300.0 million was outstanding under the Term Facility at an interest rate of 1.87%.

In fiscal 2021, we entered into an amendment, restatement and consolidation of the Amended Credit Agreement and the Term Facility Agreement with various lenders, including MUFG Bank, Ltd, as administrative agent. This amended and restated credit agreement (the “Credit Agreement”), dated February 16, 2021, consists of a $700.0 million revolving credit facility and a $300.0 million term loan facility, and will mature no later than February 2024. We used the facilities to refinance and consolidate the Amended Credit Agreement and the Term Facility Agreement, pay the fees and expenses incurred therewith, and finance our ongoing working capital and other general corporate purposes.

As of April 24, 2021, $300.0 million was outstanding under the Credit Agreement term loan at an interest rate of 1.36%, and $53.0 million was outstanding under the Credit Agreement revolving credit facility at an interest rate of 1.34%.

On March 16, 2021, our Board of Directors approved a new share repurchase authorization for up to $500 million of our company's common stock through March 16, 2024, replacing the March 2018 share repurchase authorization for up to $500 million of common stock which had expired and under which no repurchases had been made. As of April 24, 2021, $500 million remains available under the current repurchase authorization.

We have $143.2 million in cash and cash equivalents as of April 24, 2021, of which $86.1 million is in foreign bank accounts. See Note 11 to the Consolidated Financial Statements for further information regarding our intention to permanently reinvest these funds. Included in cash and cash equivalents as of April 24, 2021 is $36.8 million of cash collected from previously sold customer financing arrangements that have not yet been settled with the third party. See Note 4 to the Consolidated Financial Statements for further information.

We expect the collection of deferred purchase price receivables, existing cash balances and credit availability under existing debt facilities, less our funds used in operations, will be sufficient to meet our working capital needs and to finance our business over the next fiscal year.

We expect to continue to obtain liquidity from the sale of equipment finance contracts. Patterson sells a significant portion of our finance contracts (see below) to a commercial paper funded conduit managed by a third party bank, and as a result, commercial paper is indirectly an important source of liquidity for Patterson. Patterson is allowed to participate in the conduit due to the quality of our finance contracts and our financial strength. Cash flows could be impaired if our financial strength diminishes to a level that precluded us from taking part in this facility or other similar facilities. Also, market conditions outside of our control could adversely affect the ability for us to sell the contracts.

Customer Financing Arrangements

As a convenience to our customers, we offer several different financing alternatives, including a third party program and a Patterson-sponsored program. For the third party program, we act as a facilitator between the customer and the third party financing entity with no on-going involvement in the financing transaction. Under the Patterson-sponsored program, equipment purchased by creditworthy customers may be financed up to a maximum of $1 million. We generally sell our customers’ financing contracts to outside financial institutions in the normal course of our business. We currently have two arrangements under which we sell these contracts.

First, we operate under an agreement to sell a portion of our equipment finance contracts to commercial paper conduits with MUFG Bank, Ltd. ("MUFG") serving as the agent. We utilize PDC Funding, a consolidated, wholly owned subsidiary, to fulfill a requirement of participating in the commercial paper conduit. We receive the proceeds of the contracts upon sale to MUFG. The capacity under the agreement with MUFG at April 24, 2021 was $525 million.

Second, we maintain an agreement with Fifth Third Bank ("Fifth Third") whereby Fifth Third purchases customers’ financing contracts. PDC Funding II, a consolidated, wholly owned subsidiary, sells financing contracts to Fifth Third. We receive the proceeds of the contracts upon sale to Fifth Third. The capacity under the agreement with Fifth Third at April 24, 2021 was $100 million.

Our financing business is described in further detail in Note 4 to the Consolidated Financial Statements.

Contractual Obligations

A summary of our contractual obligations as of April 24, 2021 follows (in thousands):

	Payments due by year				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt principal	$ 591,250	$ 100,750	$ 333,000	$ 117,500	$ 40,000
Long-term debt interest	49,378	16,158	23,067	7,121	3,032
Operating leases	84,879	34,304	40,690	8,557	1,328
Total	$ 725,507	$ 151,212	$ 396,757	$ 133,178	$ 44,360

As of April 24, 2021 our gross liability for uncertain tax positions, including interest and penalties, was $12.9 million. We are not able to reasonably estimate the amount by which the liability will increase or decrease over an extended period of time or whether a cash settlement of the liability will be required. Therefore, these amounts have been excluded from the schedule of contractual obligations.

For a more complete description of our contractual obligations, see Notes 9 and 10 to the Consolidated Financial Statements.

Outlook

The COVID-19 pandemic and measures taken in response thereto have had, and may continue to have, a significant impact on our businesses. Beginning in March 2020, across our markets authorities implemented numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter in place orders, and business shutdowns, and continued to implement such measures as new waves of infection developed. These measures had negative impacts on consumer spending and business spending habits, that adversely impacted our financial results and the financial results of our customers, suppliers and business partners during fiscal 2021, and are expected to continue to have negative impacts into fiscal 2022.

In our markets of the U.S., Canada, and the UK, restrictive measures have now been lifted or are expected to be lifted soon, sometimes subject to social distancing and capacity restrictions, due to the rapid pace of vaccination and improving local case rates. However, other areas around the world continue to suffer. Concerns remain that our markets could see a resurgence of cases triggering another shutdown, for example due to the emergence of a variant not effected by existing vaccines. In addition, COVID-19 continues to have a material effect on the macroeconomic environment, and there is continued uncertainty around its duration and ultimate impact.

We cannot accurately estimate how long and to what extent COVID-19 will continue to impact our business. Although we have experienced reduced demand in certain areas of our business, we are unable to predict how significantly the pandemic will reduce future demand for services provided by dentists and veterinarians, the effect of such decreased demand on the demand for the dental and companion animal products and services we distribute, or the impact of the pandemic on the overall healthcare infrastructure and economic outlook in the United States, Canada or the United Kingdom.

In addition to the impact on procedure volumes, we are experiencing and may experience other disruptions as a result of the COVID-19 pandemic. For example, disruptions or potential disruptions include restrictions on the ability of our personnel to travel and access customers for sales, service and other support; supplier disruptions; and additional government requirements to “shelter at home” or other incremental mitigation efforts that may further impact our capacity to sell and service the products we distribute. Furthermore, the economic effects of the pandemic and other governmental actions could reduce the demand for food animal products, thereby adversely affecting our production animal supply business. The total impact of these disruptions could have a material impact on our financial condition, cash flows and results of operations. However, we continue to believe in the long-term fundamentals of our business and our compelling value proposition to customers.

Working Capital Management

The following table summarizes our average accounts receivable days sales outstanding and average annual inventory turnover for the past three fiscal years:

	Fiscal Year Ended		
	April 24, 2021	April 25, 2020	April 27, 2019
Days sales outstanding	25.9	29.1	36.5
Inventory turnover	6.1	5.4	5.3

Foreign Operations

We derive foreign sales from Dental operations in Canada, and Animal Health operations in Canada and the U.K. Fluctuations in currency exchange rates have not significantly impacted earnings, as these fluctuations impact sales, cost of sales and operating expenses. However, changes in exchange rates positively impacted net sales by $28.4 million in fiscal 2021, while they adversely affected net sales by $21.9 million and $24.3 million in fiscal 2020 and 2019, respectively. Changes in currency exchange rates are a risk accompanying foreign operations, but this risk is not considered material with respect to our consolidated operations.

Critical Accounting Policies and Estimates

Patterson has adopted various accounting policies to prepare our consolidated financial statements in accordance with accounting principles generally accepted in the U.S. Management believes that our policies are conservative and our philosophy is to adopt accounting policies that minimize the risk of adverse events having a material impact on recorded assets and liabilities. However, the preparation of financial statements requires the use of estimates and judgments regarding the realization of assets and the settlement of liabilities based on the information available to management at the time. Changes subsequent to the preparation of the financial statements in economic, technological and competitive conditions may materially impact the recorded values of Patterson's assets and liabilities. Therefore, the users of the financial statements should read all the notes to the Consolidated Financial Statements and be aware that conditions currently unknown to management may develop in the future. This may require a material adjustment to a recorded asset or liability to consistently apply to our significant accounting principles and policies that are discussed in Note 1 to the Consolidated Financial Statements. The financial performance and condition of Patterson may also be materially impacted by transactions and events that we have not previously experienced and for which we have not been required to establish an accounting policy or adopt a generally accepted accounting principle.

Revenue Recognition – Revenues are generated from the sale of consumable products, equipment and support, software and support, technical service parts and labor, and other sources. Revenues are recognized when or as performance obligations are satisfied. Performance obligations are satisfied when the customer obtains control of the goods or services.

Consumable, equipment, software and parts sales are recorded upon delivery, except in those circumstances where terms of the sale are FOB shipping point, in which case sales are recorded upon shipment. Technical service labor is recognized as it is provided. Revenue derived from equipment and software support is recognized ratably over the period in which the support is provided.

In addition to revenues generated from the distribution of consumable products under arrangements (buy/sell agreements) where the full market value of the product is recorded as revenue, we earn commissions for services provided under agency agreements. The agency agreement contrasts to a buy/sell agreement in that we do not have control over the transaction, as we do not have the primary responsibility of fulfilling the promise of the good or service and we do not bill or collect from the customer in an agency relationship. Commissions under agency agreements are recorded when the services are provided.

Estimates for returns, damaged goods, rebates, loyalty programs and other revenue allowances are made at the time the revenue is recognized based on the historical experience for such items. The receivables that result from the recognition of revenue are reported net of related allowances. We maintain a valuation allowance based upon the expected collectability of receivables held. Estimates are used to determine the valuation allowance and are based on several factors, including historical collection data, economic trends and credit worthiness of customers. Receivables are written off when we determine the amounts to be uncollectible, typically upon customer bankruptcy or non-response to continuous collection efforts. The portions of receivable amounts that are not expected to be collected during the next twelve months are classified as long-term.

Patterson has a relatively large, dispersed customer base and no single customer accounts for more than 10% of consolidated net sales. In addition, the equipment sold to customers under finance contracts generally serves as collateral for the contract and the customer provides a personal guarantee as well.

Net sales do not include sales tax as we are considered a pass-through conduit for collecting and remitting sales tax.

Patterson Advantage Loyalty Program – Patterson Dental provides a point-based awards program to qualifying customers involving the issuance of “Patterson Advantage dollars” which can be used toward equipment and technology purchases. Patterson Advantage dollars earned during a program year expire one year after the end of the program year. The cost and corresponding liability associated with the program is recognized as contra-revenue. As of April 24, 2021, we believe we have sufficient experience with the program to reasonably estimate the amount of Patterson Advantage dollars that will not be redeemed and thus have recorded a liability for 89.0% of the maximum potential amount that could be redeemed. We recognize the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer, and we recognize the estimated value of unused Patterson Advantage dollars as redemptions occur. Breakage recognized was immaterial to all periods presented.

Inventory and Reserves – Inventory consists primarily of merchandise held for sale and is stated at the lower of cost or market. Cost is determined using the last-in, first-out ("LIFO") method for all inventories, except for foreign inventories and manufactured inventories, which are valued using the first-in, first-out ("FIFO") method. We continually assess the valuation of inventories and reduce the carrying value of those inventories that are obsolete or in excess of forecasted usage to estimated realizable value. Estimates are made of the net realizable value of such inventories based on analyses and assumptions including, but not limited to, historical usage, future demand and market requirements.

Goodwill and Other Indefinite-Lived Intangible Assets – Goodwill represents the excess of cost over the fair value of identifiable net assets of businesses acquired. Impairment testing for goodwill is done at the reporting unit level, with all goodwill assigned to a reporting unit. We have two reporting units as of April 24, 2021; Dental and Animal Health. Our Corporate reportable segment's assets and liabilities, and net sales and expenses, are allocated to the two reporting units. We assess goodwill for impairment annually and whenever an event occurs or circumstances change that would indicate that the carrying amount may be impaired. Any goodwill impairment is measured as the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying value of goodwill.

The determination of fair value involves uncertainties because it requires management to make assumptions and to apply judgment to estimate industry and economic factors and the profitability of future business strategies. Patterson conducts impairment testing based on current business strategy in light of present industry and economic conditions, as well as future expectations. Additionally, in assessing goodwill for impairment, the reasonableness of the implied control premium is considered based on market capitalizations and recent market transactions.

Our indefinite-lived intangible asset is a trade name, which is assessed for impairment by comparing the carrying value of the asset with its fair value. If the carrying value exceeds fair value, an impairment loss is recognized in an amount equal to the excess. The determination of fair value involves assumptions, including projected revenues and gross profit levels, as well as consideration of any factors that may indicate potential impairment.

In connection with the preparation of these financial statements in the fourth quarter of fiscal 2021, management completed its annual goodwill and other indefinite-lived intangible asset impairment tests using the beginning of our fiscal 2021 fourth quarter as the valuation date. We determined that there was no impairment of either goodwill or our indefinite-lived intangible asset.

In connection with the preparation of our fiscal 2020 Form 10-K in the fourth quarter of fiscal 2020, management completed its annual goodwill and other indefinite-lived intangible asset impairment tests using the beginning of our fiscal 2020 fourth quarter as the valuation date. We determined that there was no impairment of our indefinite-lived intangible asset. Our annual goodwill impairment test resulted in no impairment to the Dental reporting unit’s goodwill, and a $269.0 million non-cash pre-tax impairment charge of our Animal Health reporting unit’s goodwill.

The decrease in the fair value of the Animal Health reporting unit below its carrying value was mainly the result of a reduction in management’s estimates of future cash flows. Future cash flows were affected by a reduction in future sales volume and operating margins. The sales volume estimate reflected recent sales trends we had experienced. Future operating margins were expected to be lower based on then-current trends in our markets. These trends were driven by customer and vendor consolidation.

Subsequent to the annual test being completed and in connection with the preparation of our fiscal 2020 Form 10-K in the fourth quarter of fiscal 2020, we experienced events and circumstances that indicated that the carrying amount of goodwill may have been further impaired. These events and circumstances included a decline in our projected future earnings and a sustained decrease in our share price. As such, we tested our goodwill for impairment as of the beginning of our fiscal April 2020. This test resulted in no impairment to the Dental reporting unit's goodwill, and a $406.1 million non-cash pre-tax impairment charge of our Animal Health reporting unit's goodwill.

The decrease in the fair value of the Animal Health reporting unit subsequent to the annual goodwill impairment test was caused by additional reductions in management's estimates of future cash flows, driven by reduced sales volumes, as well as reduced EBITDA multiples of comparable companies. These estimates and market multiples were negatively affected by COVID-19. In fiscal 2020, the animal health industry experienced a reduction in sales volume as a result of stay at home and shelter in place orders, as well as a result of meat packing plant closures. Our future cash flow estimates for this business unit in fiscal 2020 reflected the long-term impact of COVID-19.

As of April 25, 2020, our Animal Health reporting unit had no remaining goodwill as a result of the total goodwill impairment charges recorded in fiscal 2020 of $675.1 million.

Long-Lived Assets – Long-lived assets, including definite-lived intangible assets, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows derived from such assets. Our definite-lived intangible assets primarily consist of customer relationships, trade names and trademarks. When impairment exists, the related assets are written down to fair value using level 3 inputs, as discussed further in Note 6 to the Consolidated Financial Statements.

Development Costs of Software to be Sold - At the end of each fiscal quarter, we compare the unamortized capitalized costs of software to be sold to its net realizable value. If the unamortized amount exceeds the net realizable value, an impairment is recorded for this amount of that asset shall be written off. If the unamortized capitalized costs are less than the net realizable value of that asset, then there is no impairment.

Related Party Transactions – We have interests in a number of entities that are accounted for using the equity method. During fiscal 2021, 2020 and 2019 we made purchases of $110.2 million, $94.2 million and $87.9 million from these entities, respectively. During fiscal 2021, 2020 and 2019, we recorded net sales of $93.6 million, $110.3 million and $74.5 million to these entities, respectively.

Income Taxes – We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgments are required in determining the consolidated provision for income taxes. Changes in interpretation of the Tax Act could create potential added uncertainties.

During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, we recognize tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite our belief that our tax return position is supportable, we believe that certain positions may not be fully sustained upon review by tax authorities. We believe that our accruals for tax liabilities are adequate for all open audit years based on our assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made and could materially affect our financial results.

Valuation allowances are established for deferred tax assets if, after assessment of available positive and negative evidence, it is more likely than not that the deferred tax asset will not be fully realized.

Self-insurance – Patterson is self-insured for certain losses related to general liability, product liability, automobile, workers' compensation and medical claims. We estimate our liabilities based upon an analysis of historical data and actuarial estimates. While current estimates are believed reasonable based on information currently available, actual results could differ and affect financial results due to changes in the amount or frequency of claims, medical cost inflation or other factors. Historically, actual results related to these types of claims have not varied significantly from estimated amounts.

Stock-based Compensation – We recognize stock-based compensation based on certain assumptions including inputs within valuation models, estimated forfeitures and estimated performance outcomes. These assumptions require subjective judgment and changes in the assumptions can materially affect fair value estimates. Management assesses the assumptions and methodologies used to estimate forfeitures and to calculate estimated fair value of stock-based compensation on a regular basis. Circumstances may change, and additional data may become available over time, which could result in changes to these assumptions and methodologies and thereby materially impact the fair value determination or estimates of forfeitures. If factors change and we employ different assumptions, the amount of compensation expense associated with stock-based compensation may differ significantly from what was recorded in the current period.

Subsequent Events

During the first quarter of fiscal 2022, we entered into an agreement to sell a portion of one of our investments, which we expect to close in the first quarter of fiscal 2022. We expect to receive cash proceeds of approximately $54.0 million, and to record a pre-tax gain of approximately $28.0 million in other income, net in our consolidated statements of operations and other comprehensive income (loss) as a result of this transaction. Also related to this transaction, we expect to record a non-cash gain in the first quarter of fiscal 2022 related to the remaining portion of this investment.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

We are exposed to market risk consisting of foreign currency rate fluctuations and changes in interest rates.

We are exposed to foreign currency exchange rate fluctuations in our operating statement due to transactions denominated primarily in Canadian Dollars and British Pounds. Although we do not currently have foreign currency hedge contracts, we continually evaluate our foreign currency exchange rate risk and the different mechanisms for use in managing such risk. A hypothetical 10% change in the value of the U.S. dollar in relation to our most significant foreign currency exposures would have changed net sales by approximately $94.1 million for the fiscal year ended April 24, 2021. This amount is not indicative of the hypothetical net earnings impact due to the partially offsetting impact of the currency exchange movements on cost of sales and operating expenses. We estimate that if foreign currency exchange rates changed by 10%, the impact would have been approximately $3.0 million to income (loss) before taxes for the fiscal year ended April 24, 2021.

The Credit Agreement consists of a $300.0 million term loan facility and a $700.0 million revolving credit facility, which will mature no later than February 2024. Interest on borrowings is variable and is determined as a base rate plus a spread. This spread, as well as a commitment fee on the unused portion of the facility, is based on our leverage ratio, as defined in the Credit Agreement. Due to the interest rate being variable, fluctuations in interest rates may impact our earnings. Based on our current level of debt, we estimate that a 100 basis point change in interest rates would have a $3.5 million annual impact on our income (loss) before taxes.

Our earnings are also affected by fluctuations in short-term interest rates through the investment of cash balances and the practice of selling fixed rate equipment finance contracts under agreements with both a commercial paper conduit and a bank that provide for pricing based on variable interest rates.

When considering the exposure under the agreements whereby we sell equipment finance contracts to both a commercial paper conduit and bank, we have the ability to select pricing based on interest rates ranging from 30 day LIBOR up to twelve month LIBOR. In addition, the majority of the portfolio of installment contracts generally turns over in less than 48 months, and we can adjust the rate we charge on new customer contracts at any time. Therefore, in times where the interest rate markets are not rapidly increasing or decreasing, the average interest rate in the portfolio generally moves with the interest rate markets and thus would parallel the underlying interest rate movement of the pricing built into the sale agreements. In calculating the gain on the contract sales, we use an interest rate curve that approximates the maturity period of the then-outstanding contracts. If increases in the interest rate markets occur, the average interest rate in our contract portfolio may not increase at the same rate, resulting in a reduction of gain on the contract sales as compared to the gain that would be realized if the average interest rate in our portfolio were to increase at a more similar rate to the interest rate markets. In fiscal 2019, we entered into forward interest rate swap agreements in order to hedge against interest rate fluctuations that impact the amount of net sales we record related to these contracts. These interest rate swap agreements do not qualify for hedge accounting treatment and, accordingly, we record the fair value of the agreements as an asset or liability and the change as income or expense during the period in which the change occurs. As a result of entering into these interest rate swap agreements, we estimate that a 10% change in interest rates would have less than a $1.0 million annual impact on our income (loss) before taxes.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Patterson Companies, Inc.

Opinion on Internal Control Over Financial Reporting

We have audited Patterson Companies, Inc. internal control over financial reporting as of April 24, 2021, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Patterson Companies, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of April 24, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the accompanying consolidated balance sheets of Patterson Companies, Inc. (the Company) as of April 24, 2021 and April 25, 2020, the related consolidated statements of operations and other comprehensive income (loss), changes in stockholders' equity and cash flows for each of the three years in the period ended April 24, 2021, and the related notes and the financial statement schedule listed in the Index at Item 15(a)(2) (collectively referred to as the “consolidated financial statements”) and our report dated June 23, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

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

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP
Minneapolis, Minnesota
June 23, 2021

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Patterson Companies, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Patterson Companies, Inc. (the Company) as of April 24, 2021 and April 25, 2020, the related consolidated statements of operations and other comprehensive income (loss), changes in stockholders' equity and cash flows for each of the three years in the period ended April 24, 2021, and the related notes and the financial statement schedule listed in the Index at Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at April 24, 2021 and April 25, 2020, and the results of its operations and its cash flows for each of the three years in the period ended April 24, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of April 24, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated June 23, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

Capitalized development costs of software to be sold impairment

Description of the Matter	At April 24, 2021, the Company's capitalized development costs of software to be sold was \$68.2 million. As discussed in Note 1 of the consolidated financial statements, at the end of each fiscal quarter these unamortized capitalized costs of software to be sold are compared to its net realizable value. If the unamortized capitalized costs are less than the net realizable value of that asset, then there is no impairment. Auditing management's comparison of unamortized capitalized development costs of software to be sold to its net realizable value was complex and highly judgmental due to the significant estimation required in determining the net realizable value of the asset. For software to be sold, the estimate of the net realizable value was sensitive to significant assumptions, such as forecasted revenue and related revenue growth rates, gross margin and operating expenses as a percentage of revenue assumptions, which are affected by expected future market or economic conditions.
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's process to compare unamortized capitalized costs of software to be sold to its net realizable value, including controls over management's budgeting and forecasting process used to develop the projected future revenue, gross margins and operating expenses used in the fair value estimates, as well as controls over management's review of the significant data and assumptions described above. To test the estimated fair value of the unamortized capitalized development costs of software to be sold, we performed audit procedures that included, among others, assessing the valuation methodologies used by management and testing the significant assumptions discussed above. We compared the significant assumptions used by management to current industry, market and economic trends, as well as other relevant factors. We assessed the reasonableness of forecasted future revenue by comparing the forecasts to historical software sales results. We also performed sensitivity analyses of significant assumptions to evaluate the significance of changes in the recoverability that would result from changes in assumptions.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1985.

Minneapolis, Minnesota
June 23, 2021

PATTERSON COMPANIES, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	April 24, 2021	April 25, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 143,244	$ 77,944
Receivables, net of allowance for doubtful accounts of $6,138 and $5,123	449,235	416,523
Inventory	736,778	812,194
Prepaid expenses and other current assets	286,672	236,104
Total current assets	1,615,929	1,542,765
Property and equipment, net	219,438	303,725
Operating lease right-of-use assets, net	77,217	79,021
Long-term receivables, net	223,970	214,915
Goodwill, net	139,932	138,724
Identifiable intangibles, net	279,644	313,505
Other non-current assets	195,381	122,695
Total assets	$ 2,751,511	$ 2,715,350
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 609,264	$ 862,093
Accrued payroll expense	118,425	68,385
Other accrued liabilities	175,975	113,714
Operating lease liabilities	32,252	30,706
Current maturities of long-term debt	100,750	—
Borrowings on revolving credit	53,000	—
Total current liabilities	1,089,666	1,074,898
Long-term debt	487,545	587,766
Non-current operating lease liabilities	48,318	49,854
Deferred income taxes	124,491	134,547
Other non-current liabilities	36,820	31,841
Total liabilities	1,786,840	1,878,906
Stockholders' equity:		
Common stock, $0.01 par value: 600,000 shares authorized; 96,813 and 95,947 shares issued and outstanding	968	959
Additional paid-in capital	169,099	146,606
Accumulated other comprehensive loss	(62,592)	(97,039)
Retained earnings	855,741	799,652
Unearned ESOP shares	—	(16,061)
Total Patterson Companies, Inc. stockholders' equity	963,216	834,117
Noncontrolling interests	1,455	2,327
Total stockholders' equity	964,671	836,444
Total liabilities and stockholders' equity	$ 2,751,511	$ 2,715,350

See accompanying notes

PATTERSON COMPANIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
AND OTHER COMPREHENSIVE INCOME (LOSS)
(In thousands, except per share amounts)

	Fiscal Year Ended		
	April 24, 2021	April 25, 2020	April 27, 2019
Net sales	$ 5,912,066	$ 5,490,011	$ 5,574,523
Cost of sales	4,708,936	4,292,601	4,383,748
Gross profit	1,203,130	1,197,410	1,190,775
Operating expenses	992,523	1,094,474	1,053,059
Goodwill impairment	—	675,055	—
Operating income (loss)	210,607	(572,119)	137,716
Other (expense) income:			
Other income, net	13,608	23,499	8,178
Interest expense	(24,284)	(41,787)	(39,666)
Income (loss) before taxes	199,931	(590,407)	106,228
Income tax expense (benefit)	44,822	(1,040)	23,352
Net income (loss)	155,109	(589,367)	82,876
Net loss attributable to noncontrolling interests	(872)	(921)	(752)
Net income (loss) attributable to Patterson Companies, Inc.	$ 155,981	$ (588,446)	$ 83,628
Earnings (loss) per share attributable to Patterson Companies, Inc.:			
Basic	$ 1.63	$ (6.25)	$ 0.90
Diluted	$ 1.61	$ (6.25)	$ 0.89
Weighted average shares:			
Basic	95,599	94,154	92,755
Diluted	96,664	94,154	93,484
Dividends declared per common share	$ 1.04	$ 1.04	$ 1.04
Comprehensive income (loss)			
Net income (loss)	$ 155,109	$ (589,367)	$ 82,876
Foreign currency translation gain (loss)	33,405	(14,062)	(15,583)
Cash flow hedges, net of tax	1,042	7,999	2,288
Comprehensive income (loss)	$ 189,556	$ (595,430)	$ 69,581

See accompanying notes

PATTERSON COMPANIES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Unearned ESOP Shares	Non-controlling interests	Total
	Number	Amount						
Balance at April 28, 2018	94,756	$ 948	$ 103,776	$ (74,974)	$ 1,497,766	$ (65,726)	$ —	$ 1,461,790
Foreign currency translation	—	—	—	(15,583)	—	—	—	(15,583)
Cash flow hedges	—	—	—	2,288	—	—	—	2,288
Net income (loss)	—	—	—	—	83,628	—	(752)	82,876
Dividends declared	—	—	—	—	(97,898)	—	—	(97,898)
Common stock issued and related tax benefits	516	5	7,999	—	—	—	—	8,004
Stock based compensation	—	—	19,685	—	—	—	—	19,685
ESOP activity	—	—	—	—	—	15,345	—	15,345
Increase from asset acquisition	—	—	—	—	—	—	4,000	4,000
Balance at April 27, 2019	95,272	953	131,460	(88,269)	1,483,496	(50,381)	3,248	1,480,507
Foreign currency translation	—	—	—	(14,062)	—	—	—	(14,062)
Cash flow hedges	—	—	—	7,999	—	—	—	7,999
Net loss	—	—	—	—	(588,446)	—	(921)	(589,367)
Dividends declared	—	—	—	—	(99,552)	—	—	(99,552)
Common stock issued and related tax benefits	675	6	(7,790)	—	—	—	—	(7,784)
Stock based compensation	—	—	22,936	—	—	—	—	22,936
ESOP activity	—	—	—	—	—	34,320	—	34,320
Adoption of ASU 2016-02	—	—	—	—	1,447	—	—	1,447
Adoption of ASU 2018-02	—	—	—	(2,707)	2,707	—	—	—
Balance at April 25, 2020	95,947	959	146,606	(97,039)	799,652	(16,061)	2,327	836,444
Foreign currency translation	—	—	—	33,405	—	—	—	33,405
Cash flow hedges	—	—	—	1,042	—	—	—	1,042
Net income (loss)	—	—	—	—	155,981	—	(872)	155,109
Dividends declared	—	—	—	—	(99,892)	—	—	(99,892)
Common stock issued and related tax benefits	866	9	1,270	—	—	—	—	1,279
Stock based compensation	—	—	21,223	—	—	—	—	21,223
ESOP activity	—	—	—	—	—	16,061	—	16,061
Balance at April 24, 2021	96,813	$ 968	$ 169,099	$ (62,592)	$ 855,741	$ —	$ 1,455	$ 964,671

See accompanying notes

PATTERSON COMPANIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Fiscal Year Ended		
	April 24, 2021	April 25, 2020	April 27, 2019
Operating activities:			
Net income (loss)	$ 155,109	$ (589,367)	$ 82,876
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Depreciation	41,669	44,981	44,371
Amortization	37,227	37,201	38,402
Investment gain	—	(34,334)	—
Goodwill impairment	—	675,055	—
Bad debt expense	2,559	2,008	7,333
Non-cash employee compensation	30,488	37,354	33,425
Accelerated amortization of debt issuance costs on early retirement of debt	—	8,984	—
Deferred income taxes	(10,760)	(31,800)	10,762
Non-cash losses (gains) and other, net	1,318	—	—
Change in assets and liabilities:			
Receivables	(916,694)	(540,065)	(205,715)
Inventory	91,193	(59,258)	11,547
Accounts payable	(268,338)	219,613	44,189
Accrued liabilities	85,849	25,474	512
Long term receivables	(5,801)	(7,156)	(4,373)
Other changes from operating activities, net	25,662	(32,234)	(15,171)
Net cash (used in) provided by operating activities	(730,519)	(243,544)	48,158
Investing activities:			
Additions to property and equipment	(25,788)	(41,809)	(60,734)
Collection of deferred purchase price receivables	833,958	540,944	402,367
Other investing activities	2,493	—	(906)
Net cash provided by investing activities	810,663	499,135	340,727
Financing activities:			
Dividends paid	(75,183)	(100,442)	(99,468)
Proceeds from issuance of long-term debt	—	300,000	—
Debt issuance costs	—	(3,300)	—
Payments on long-term debt	—	(460,840)	(249,542)
Draw on (payments on) revolving credit	53,000	—	(16,000)
Other financing activities	(462)	(6,647)	9,764
Net cash used in financing activities	(22,645)	(271,229)	(355,246)
Effect of exchange rate changes on cash	7,801	(2,064)	(977)
Net change in cash and cash equivalents	65,300	(17,702)	32,662
Cash and cash equivalents at beginning of period	77,944	95,646	62,984
Cash and cash equivalents at end of period	$ 143,244	$ 77,944	$ 95,646
Supplemental disclosures:			
Income taxes paid	$ 48,924	$ 12,021	$ 17,530
Interest paid	15,234	25,742	31,045
Supplemental disclosure of non-cash investing activity:			
Retained interest in securitization transactions	$ 900,578	$ 707,395	$ 430,858

See accompanying notes

1. Summary of Significant Accounting Policies

Description of Business

Patterson Companies, Inc. (referred to herein as “Patterson” or in the first person notations “we,” “our,” and “us”) is a value-added specialty distributor serving the U.S. and Canadian dental supply and the U.S., Canadian and U.K. animal health supply markets. Patterson has three reportable segments: Dental, Animal Health and Corporate.

Basis of Presentation

The consolidated financial statements include the assets and liabilities of PDC Funding Company, LLC ("PDC Funding"), PDC Funding Company II, LLC ("PDC Funding II"), PDC Funding Company III, LLC ("PDC Funding III") and PDC Funding Company IV, LLC ("PDC Funding IV"), which are our wholly owned subsidiaries and separate legal entities formed under Minnesota law. PDC Funding and PDC Funding II are fully consolidated special purpose entities established to sell customer installment sale contracts to outside financial institutions in the normal course of their business. PDC Funding III and PDC Funding IV are fully consolidated special purpose entity established to sell certain receivables to unaffiliated financial institutions. The assets of PDC Funding, PDC Funding II, PDC Funding III and PDC Funding IV would be available first and foremost to satisfy the claims of its creditors. There are no known creditors of PDC Funding, PDC Funding II, PDC Funding III or PDC Funding IV. The consolidated financial statements also include the assets and liabilities of Technology Partner Innovations, LLC, which is further described in Note 12.

Fiscal Year End

We operate with a 52-53 week accounting convention with our fiscal year ending on the last Saturday in April. Fiscal 2021, 2020 and 2019 ended on April 24, 2021, April 25, 2020 and April 27, 2019, respectively, and all years consisted of 52 weeks. Fiscal 2022 will end on April 30, 2022 and will consist of 53 weeks.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash equivalents consist primarily of investments in money market funds and government securities. The maturity of these securities at the time of purchase is 90 days or less. All cash and cash equivalents are classified as available-for-sale and carried at fair value, which approximates cost.

Inventory

Inventory consists of merchandise held for sale and is stated at the lower of cost or market. The cost of our inventory includes the amount we pay to our suppliers to acquire inventory and freight costs incurred in connection with the delivery of product to our distribution centers and our other locations. Cost is determined using the last-in, first-out ("LIFO") method for all inventories, except for foreign inventories, which are valued using the first-in, first-out ("FIFO") method. Inventories valued at LIFO represented 83% and 83% of total inventories at April 24, 2021 and April 25, 2020, respectively.

The accumulated LIFO reserve was $120,775 at April 24, 2021 and $99,726 at April 25, 2020. We believe that inventory replacement cost exceeds the inventory balance by an amount approximating the LIFO reserve.

Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated on the straight-line method over estimated useful lives of up to 39 years for buildings or the expected remaining life of purchased buildings, the term of the lease for leasehold improvements, 3 to 10 years for computer hardware and software, and 5 to 10 years for furniture and equipment.

Goodwill and Other Indefinite-Lived Intangible Assets

Goodwill represents the excess of cost over the fair value of identifiable net assets of businesses acquired. Impairment testing for goodwill is done at the reporting unit level, with all goodwill assigned to a reporting unit. We have two reporting units as of April 24, 2021; Dental and Animal Health. Our Corporate reportable segment's assets and liabilities, and net sales and expenses, are allocated to the two reporting units. We assess goodwill for impairment annually and whenever an event occurs or circumstances change that would indicate that the carrying amount may be impaired. Any goodwill impairment is measured as the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying value of goodwill.

The determination of fair value involves uncertainties because it requires management to make assumptions and to apply judgment to estimate industry and economic factors and the profitability of future business strategies. Patterson conducts impairment testing based on current business strategy in light of present industry and economic conditions, as well as future expectations. Additionally, in assessing goodwill for impairment, the reasonableness of the implied control premium is considered based on market capitalizations and recent market transactions.

Our indefinite-lived intangible asset is a trade name, which is assessed for impairment by comparing the carrying value of the asset with its fair value. If the carrying value exceeds fair value, an impairment loss is recognized in an amount equal to the excess. The determination of fair value involves assumptions, including projected revenues and gross profit levels, as well as consideration of any factors that may indicate potential impairment.

In connection with the preparation of these financial statements in the fourth quarter of fiscal 2021, management completed its annual goodwill and other indefinite-lived intangible asset impairment tests using the beginning of our fiscal 2021 fourth quarter as the valuation date. We determined that there was no impairment of either goodwill or our indefinite-lived intangible asset.

In connection with the preparation of our fiscal 2020 Form 10-K in the fourth quarter of fiscal 2020, management completed its annual goodwill and other indefinite-lived intangible asset impairment tests using the beginning of our fiscal 2020 fourth quarter as the valuation date. We determined that there was no impairment of our indefinite-lived intangible asset. Our annual goodwill impairment test resulted in no impairment to the Dental reporting unit’s goodwill, and a $269,000 non-cash pre-tax impairment charge of our Animal Health reporting unit’s goodwill.

The decrease in the fair value of the Animal Health reporting unit below its carrying value was mainly the result of a reduction in management’s estimates of future cash flows. Future cash flows were affected by a reduction in future sales volume and operating margins. The sales volume estimate reflected recent sales trends we had experienced. Future operating margins are expected to be lower based on then-current trends in our markets. These trends were driven by customer and vendor consolidation.

Subsequent to the annual test being completed and in connection with the preparation of our fiscal 2020 Form 10-K in the fourth quarter of fiscal 2020, we experienced events and circumstances that indicated that the carrying amount of goodwill may have been further impaired. These events and circumstances included a decline in our projected future earnings and a sustained decrease in our share price. As such, we tested our goodwill for impairment as of the beginning of our fiscal April 2020. This test resulted in no impairment to the Dental reporting unit’s goodwill, and a $406,055 non-cash pre-tax impairment charge of our Animal Health reporting unit’s goodwill.

The decrease in the fair value of the Animal Health reporting unit subsequent to the annual goodwill impairment test was caused by additional reductions in management’s estimates of future cash flows, driven by reduced sales volumes, as well as reduced EBITDA multiples of comparable companies. These estimates and market multiples were negatively affected by COVID-19. In fiscal 2020, the animal health industry experienced a reduction in sales volume as a result of stay at home and shelter in place orders, as well as a result of meat packing plant closures. Our future cash flow estimates for this business unit in fiscal 2020 reflected the long-term impact of COVID-19.

As of April 25, 2020, our Animal Health reporting unit had no remaining goodwill as a result of the total goodwill impairment charges recorded in fiscal 2020 of $675,055.

Long-Lived Assets

Long-lived assets, including definite-lived intangible assets, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows derived from such assets. Our definite-lived intangible assets primarily consist of customer relationships, trade names and trademarks. When impairment exists, the related assets are written down to fair value using level 3 inputs, as discussed further in Note 6.

Other Non-current Assets

	April 24, 2021	April 25, 2020
Investments	$ 105,522	$ 102,715
Development costs of software to be sold	68,156	—
Other	21,703	19,980
Other non-current assets	$ 195,381	$ 122,695

During fiscal 2021, we recorded $2,346 of amortization expense related to the development costs of software to be sold in cost of sales within the consolidated statements of operations and other comprehensive income (loss) .

Development Costs of Software to be Sold

At the end of each fiscal quarter, we compare the unamortized capitalized costs of software to be sold to its net realizable value. If the unamortized amount exceeds the net realizable value, an impairment is recorded for this amount of that asset shall be written off. If the unamortized capitalized costs are less than the net realizable value of that asset, then there is no impairment.

Financial Instruments

We account for derivative financial instruments under the provisions of Accounting Standards Codification ("ASC") Topic 815, “Derivatives and Hedging.” Our use of derivative financial instruments is generally limited to managing well-defined interest rate risks. We do not use financial instruments or derivatives for any trading purposes.

Revenue Recognition

Revenues are generated from the sale of consumable products, equipment and support, software and support, technical service parts and labor, and other sources. Revenues are recognized when or as performance obligations are satisfied. Performance obligations are satisfied when the customer obtains control of the goods or services.

Consumable, equipment, software and parts sales are recorded upon delivery, except in those circumstances where terms of the sale are FOB shipping point, in which case sales are recorded upon shipment. Technical service labor is recognized as it is provided. Revenue derived from equipment and software support is recognized ratably over the period in which the support is provided.

In addition to revenues generated from the distribution of consumable products under arrangements (buy/sell agreements) where the full market value of the product is recorded as revenue, we earn commissions for services provided under agency agreements. The agency agreement contrasts to a buy/sell agreement in that we do not have control over the transaction, as we do not have the primary responsibility of fulfilling the promise of the good or service and we do not bill or collect from the customer in an agency relationship. Commissions under agency agreements are recorded when the services are provided.

Estimates for returns, damaged goods, rebates, loyalty programs and other revenue allowances are made at the time the revenue is recognized based on the historical experience for such items. The receivables that result from the recognition of revenue are reported net of related allowances. We maintain a valuation allowance based upon the expected collectability of receivables held. Estimates are used to determine the valuation allowance and are based on several factors, including historical collection data, economic trends and credit worthiness of customers. Receivables are written off when we determine the amounts to be uncollectible, typically upon customer bankruptcy or non-response to continuous collection efforts. The portions of receivable amounts that are not expected to be collected during the next twelve months are classified as long-term.

Patterson has a relatively large, dispersed customer base and no single customer accounts for more than 10% of consolidated net sales. In addition, the equipment sold to customers under finance contracts generally serves as collateral for the contract and the customer provides a personal guarantee as well.

Net sales do not include sales tax as we are considered a pass-through conduit for collecting and remitting sales tax.

Contract Balances

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

Contract asset balances as of April 24, 2021 and April 25, 2020 were $2,491 and $1,586, respectively. Our contract liabilities primarily relate to advance payments from customers, upfront payments for software and support provided over time, and options that provide a material right to customers, such as our customer loyalty programs. At April 24, 2021 and April 25, 2020, contract liabilities of $23,526 and $21,205 were reported in other accrued liabilities, respectively. During the fiscal year ended April 24, 2021, we recognized $18,302 of the amount previously deferred at April 25, 2020.

Patterson Advantage Loyalty Program

The Dental segment provides a point-based awards program to qualifying customers involving the issuance of “Patterson Advantage dollars” which can be used toward equipment and technology purchases. Patterson Advantage dollars earned during a program year expire one year after the end of the program year. The cost and corresponding liability associated with the program are recognized as contra-revenue. As of April 24, 2021, we believe we have sufficient experience with the program to reasonably estimate the amount of Patterson Advantage dollars that will not be redeemed and thus have recorded a liability for 89.0% of the maximum potential amount that could be redeemed. We recognize the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer, and we recognize the estimated value of unused Patterson Advantage dollars as redemptions occur. Breakage recognized was immaterial to all periods presented.

Freight and Delivery Charges

Freight and delivery charges are included in cost of sales in the consolidated statements of operations and other comprehensive income (loss).

Advertising

We expense all advertising and promotional costs as incurred, except for direct marketing expenses, which are expensed over the shorter of the life of the asset or one year. Total net advertising and promotional expenses were $134, $5,793 and $8,356 for fiscal 2021, 2020 and 2019, respectively. There were no deferred direct-marketing expenses included in the consolidated balance sheets as of April 24, 2021 and April 25, 2020.

Related Party Transactions

We have interests in a number of entities that are accounted for using the equity method. During fiscal 2021, 2020 and 2019, we made purchases of $110,210, $94,238 and $87,944 from these entities, respectively. During fiscal 2021, 2020 and 2019, we recorded net sales of $93,577, $110,262 and $74,489 to these entities, respectively.

Income Taxes

The liability method is used to account for income tax expense. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Valuation allowances are established for deferred tax assets if, after assessment of available positive and negative evidence, it is more likely than not that the deferred tax asset will not be fully realized.

Employee Stock Ownership Plan ("ESOP")

Compensation expense related to our defined contribution ESOP is computed based on the shares allocated method.

Self-insurance

Patterson is self-insured for certain losses related to general liability, product liability, automobile, workers' compensation and medical claims. We estimate our liabilities based upon an analysis of historical data and actuarial estimates. While current estimates are believed reasonable based on information currently available, actual results could differ and affect financial results due to changes in the amount or frequency of claims, medical cost inflation or other factors. Historically, actual results related to these types of claims have not varied significantly from estimated amounts.

Stock-based Compensation

We recognize stock-based compensation expense based on estimated grant date fair values. The grant date fair value of stock options and stock purchases made through our Employee Stock Purchase Plan and our Capital Accumulation Plan are estimated using the Black-Scholes option pricing valuation model. The grant date fair value of performance stock units that vest upon meeting certain market conditions is estimated using the Monte Carlo valuation model. These valuations require estimates to be made including expected stock price volatility which considers historical volatility trends, implied future volatility based on certain traded options and other factors. We estimate the expected life of awards based on several factors, including types of participants, vesting schedules, contractual terms and various factors surrounding exercise behavior of different groups.

The grant date fair value of time-based restricted stock awards and restricted stock units is calculated based on the closing price of our common stock on the date of grant.

Compensation expense for all share-based payment awards is recognized over the requisite service period (or to the date a participant becomes eligible for retirement, if earlier) for awards that are expected to vest.

Other Income, Net

	Fiscal Year Ended		
	April 24, 2021	April 25, 2020	April 27, 2019
Gain on investment	$ —	$ 34,334	$ 4,477
Gain (loss) on interest rate swap agreements	1,151	(18,712)	(2,903)
Investment income and other	12,457	7,877	6,604
Other income, net	$ 13,608	$ 23,499	$ 8,178

Comprehensive Income (Loss)

Comprehensive income (loss) is computed as net income (loss) plus certain other items that are recorded directly to stockholders' equity. Significant items included in comprehensive income (loss) are foreign currency translation adjustments and the effective portion of cash flow hedges, net of tax. Foreign currency translation adjustments do not include a provision for income tax because earnings from foreign operations are considered to be indefinitely reinvested outside the U.S. The income tax expense related to cash flow hedge losses was $321, $2,460 and $620 for fiscal 2021, 2020 and 2019, respectively.

Earnings (Loss) Per Share ("EPS")

The amount of basic EPS is computed by dividing net income (loss) attributable to Patterson Companies, Inc. by the weighted average number of outstanding common shares during the period. The amount of diluted EPS is computed by dividing net income (loss) by the weighted average number of outstanding common shares and common share equivalents, when dilutive, during the period.

The following table sets forth the denominator for the computation of basic and diluted EPS. There were no material adjustments to the numerator.

	Fiscal Year Ended		
	April 24, 2021	April 25, 2020	April 27, 2019
Denominator for basic EPS – weighted average shares	95,599	94,154	92,755
Effect of dilutive securities – stock options, restricted stock and stock purchase plans	1,065	—	729
Denominator for diluted EPS – weighted average shares	96,664	94,154	93,484

Potentially dilutive securities representing 1,014, 2,517 and 1,792 shares for fiscal 2021, 2020 and 2019, respectively, were excluded from the calculation of diluted EPS because their effects were anti-dilutive using the treasury stock method.

For the fiscal year ended April 25, 2020, 905 incremental shares related to dilutive securities were not included in the diluted EPS calculation because we reported a loss for this period. Shares related to dilutive securities have an anti-dilutive impact on EPS when a net loss is reported and therefore are not included in the calculation.

Recent Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2020-04, “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting” and in January 2021 issued ASU No. 2021-01, “Reference Rate Reform (Topic 848): Scope”. These ASUs provide temporary optional expedients and exceptions to existing guidance on contract modifications and hedge accounting to facilitate the market transition from existing reference rates, such as LIBOR which is being phased out beginning at the end of 2021, to alternate reference rates. These standards were effective upon issuance. We are evaluating the optional relief guidance provided within these ASUs, and are reviewing our debt securities, derivative instruments and customer financing contracts that currently utilize LIBOR as the reference rate.

In December 2019, the FASB issued ASU No. 2019-12, “Income Taxes (Topic 740)". This ASU will simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740, as well as improve consistent application of, and simplify U.S. GAAP for other areas of Topic 740. We will adopt the new guidance in the first quarter of fiscal 2022, but do not anticipate any material changes to our consolidated balance sheet or consolidated statement of operations and other comprehensive income (loss).

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments-Credit Losses (Topic 326),” which requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. We adopted the new guidance in the first quarter of fiscal 2021, and it did not have a material effect on our consolidated balance sheet or consolidated statement of operations and other comprehensive income (loss).

2. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following:

	April 24, 2021	April 25, 2020
Cash on hand	$ 141,546	$ 74,553
Money market funds	1,698	3,391
Total	$ 143,244	$ 77,944

Cash on hand is generally in interest earning accounts. Included in cash and cash equivalents in the consolidated balance sheets are $36,771 and $21,830 as of April 24, 2021 and April 25, 2020, respectively, which represent cash collected from previously sold customer financing contracts that have not yet been settled. See Note 4 for additional information.

3. Receivables Securitization Program

We are party to certain receivables purchase agreements (the “Receivables Purchase Agreements”) with MUFG Bank, Ltd. ("MUFG") (f.k.a. The Bank of Tokyo-Mitsubishi UFJ, Ltd.), under which MUFG acts as an agent to facilitate the sale of certain Patterson receivables (the “Receivables”) to certain unaffiliated financial institutions (the

“Purchasers”). The sale of these receivables is accounted for as a sale of assets under the provisions of ASC 860, Transfers and Servicing. We utilize PDC Funding III and PDC Funding IV to facilitate the sale to fulfill requirements within the agreement. We use a daily unit of account for these Receivables.

The proceeds from the sale of these Receivables comprise a combination of cash and a deferred purchase price (“DPP”) receivable. The DPP receivable is ultimately realized by Patterson following the collection of the underlying Receivables sold to the Purchasers. The amount available under the Receivables Purchase Agreements fluctuates over time based on the total amount of eligible Receivables generated during the normal course of business, with maximum availability of $200,000 as of April 24, 2021, of which $200,000 was utilized.

We have no retained interests in the transferred Receivables, other than our right to the DPP receivable and collection and administrative service fees. We consider the fees received adequate compensation for services rendered, and accordingly have recorded no servicing asset or liability. As of April 24, 2021 and April 25, 2020, the fair value of outstanding trade receivables transferred to the Purchasers under the facility and derecognized from the consolidated balance sheets were $384,950 and $305,020, respectively. Sales of trade receivables under this facility were $3,171,456, $2,068,409, and $1,667,449, and cash collections from customers on receivables sold were $3,094,060, $2,128,394 and $1,445,926 during the fiscal years ended 2021, 2020 and 2019, respectively.

The DPP receivable is recorded at fair value within the consolidated balance sheets within prepaid expenses and other current assets. The difference between the carrying amount of the Receivables and the sum of the cash and fair value of the DPP receivable received at time of transfer is recognized as a gain or loss on sale of the related Receivables inclusive of bank fees and allowance for credit losses. In operating expenses in the consolidated statements of operations and other comprehensive income (loss), we recorded a loss of $3,338, $7,242 and $7,622 during fiscal 2021, 2020 and 2019, respectively, related to the Receivables.

The following summarizes the activity related to the DPP receivable:

	Fiscal Year Ended		
	April 24, 2021	April 25, 2020	April 27, 2019
Beginning DPP receivable balance	$ 117,327	$ 57,238	$ —
Non-cash additions to DPP receivable	768,619	552,751	408,565
Cash collections on DPP receivable	(701,947)	(492,662)	(351,327)
Ending DPP receivable balance	$ 183,999	$ 117,327	$ 57,238

4. Customer Financing

As a convenience to our customers, we offer several different financing alternatives, including a third party program and a Patterson-sponsored program. For the third party program, we act as a facilitator between the customer and the third party financing entity with no on-going involvement in the financing transaction. Under the Patterson-sponsored program, equipment purchased by creditworthy customers may be financed up to a maximum of $1,000. We generally sell our customers’ financing contracts to outside financial institutions in the normal course of our business. These financing arrangements are accounted for as a sale of assets under the provisions of ASC 860, *Transfers and Servicing*. We currently have two arrangements under which we sell these contracts. We use a monthly unit of account for these financing contracts.

First, we operate under an agreement to sell a portion of our equipment finance contracts to commercial paper conduits with MUFG serving as the agent. We utilize PDC Funding to fulfill a requirement of participating in the commercial paper conduit. We receive the proceeds of the contracts upon sale to MUFG. At least 15% of the proceeds are held by the conduit as security against eventual performance of the portfolio. This percentage can be greater and is based upon certain ratios defined in the agreement with MUFG. The capacity under the agreement with MUFG at April 24, 2021 was $525,000.

Second, we maintain an agreement with Fifth Third Bank ("Fifth Third") whereby Fifth Third purchases customers’ financing contracts. PDC Funding II sells its financing contracts to Fifth Third. We receive the proceeds of the contracts upon sale to Fifth Third. At least 15.0% of the proceeds are held by the conduit as security against eventual performance of the portfolio. This percentage can be greater and is based upon certain ratios defined in the agreement with Fifth Third. The capacity under the agreement with Fifth Third at April 24, 2021 was $100,000.

We service the financing contracts under both arrangements, for which we are paid a servicing fee. The servicing fees we receive are considered adequate compensation for services rendered. Accordingly, no servicing asset or liability has been recorded.

The portion of the purchase price for the receivables held by the conduits is deemed a DPP receivable, which is paid to the applicable special purpose entity as payments on the customers' financing contracts are collected by Patterson from customers. The difference between the carrying amount of the receivables sold under these programs and the sum of the cash and fair value of the DPP receivable received at time of transfer is recognized as a gain on sale of the related receivables and recorded in net sales in the consolidated statements of operations and other comprehensive income (loss). Expenses incurred related to customer financing activities are recorded in operating expenses in our consolidated statements of operations and other comprehensive income (loss).

During fiscal 2021, 2020 and 2019, we sold $369,497, $357,616 and $279,204 of contracts under these arrangements, respectively. In net sales in the consolidated statements of operations and other comprehensive income (loss), we recorded a loss of $2,048 during fiscal 2021, and a gain of $43,919 and $16,883 during fiscal 2020 and 2019, respectively, related to these contracts sold. Cash collections on financed receivables sold were $401,535, $346,077 and $369,588 during the fiscal years ended 2021, 2020 and 2019, respectively.

Included in cash and cash equivalents in the consolidated balance sheets are $36,771 and $21,830 as of April 24, 2021 and April 25, 2020, respectively, which represent cash collected from previously sold customer financing contracts that have not yet been settled. Included in current receivables in the consolidated balance sheets are $50,638 and $21,391 as of April 24, 2021 and April 25, 2020, respectively, of finance contracts we have not yet sold. A total of $646,503 of finance contracts receivable sold under the arrangements was outstanding at April 24, 2021. Since the internal financing program began in 1994, bad debt write-offs have amounted to less than 1% of the loans originated.

The following summarizes the activity related to the DPP receivable:

	Fiscal Year Ended		
	April 24, 2021	April 25, 2020	April 27, 2019
Beginning DPP receivable balance	$ 228,019	$ 121,657	$ 150,404
Non-cash additions to DPP receivable	131,959	154,644	22,293
Cash collections on DPP receivable	(132,011)	(48,282)	(51,040)
Ending DPP receivable balance	$ 227,967	$ 228,019	$ 121,657

The arrangements require us to maintain a minimum current ratio and maximum leverage ratio. We were in compliance with those covenants at April 24, 2021.

5. Derivative Financial Instruments

We are a party to certain offsetting and identical interest rate cap agreements entered into to fulfill certain covenants of the equipment finance contract sale agreements. The interest rate cap agreements also provide a credit enhancement feature for the financing contracts sold by PDC Funding and PDC Funding II to the commercial paper conduit.

The interest rate cap agreements are canceled and new agreements are entered into periodically to maintain consistency with the dollar maximum of the sale agreements and the maturity of the underlying financing contracts. As of April 24, 2021, PDC Funding had purchased an interest rate cap from a bank with a notional amount of $525,000 and a maturity date of August 2028. We sold an identical interest rate cap to the same bank. As of April 24, 2021, PDC Funding II had purchased an interest rate cap from a bank with a notional amount of $100,000 and a maturity date of November 2027. We sold an identical interest rate cap to the same bank.

These interest rate cap agreements do not qualify for hedge accounting treatment and, accordingly, we record the fair value of the agreements as an asset or liability and the change in fair value as income or expense during the period in which the change occurs.

In January 2014, we entered into a forward interest rate swap agreement with a notional amount of $250,000 and accounted for it as a cash flow hedge, in order to hedge interest rate fluctuations in anticipation of refinancing the 5.17% senior notes due March 25, 2015. These notes were repaid on March 25, 2015 and replaced with new

$250,000 3.48% senior notes due March 24, 2025. A cash payment of $29,003 was made in March 2015 to settle the interest rate swap. This amount is recorded in other comprehensive income (loss), net of tax, and is recognized as interest expense over the life of the related debt. In fiscal 2020, we repaid certain indebtedness, resulting in accelerating a portion of this interest expense and recording a pre-tax non-cash charge of $8,134. See Note 10 for additional information.

We utilize forward interest rate swap agreements to hedge against interest rate fluctuations that impact the amount of net sales we record related to our customer financing contracts. These interest rate swap agreements do not qualify for hedge accounting treatment and, accordingly, we record the fair value of the agreements as an asset or liability and the change in fair value as income or expense during the period in which the change occurs.

As of April 25, 2020, the remaining notional amount for interest rate swap agreements was $634,029, with the latest maturity date in fiscal 2027. During fiscal 2021, we entered into forward interest rate swap agreements with a notional amount of $281,778. As of April 24, 2021, the remaining notional amount for interest rate swap agreements was $653,122, with the latest maturity date in fiscal 2028.

Net cash payments of $9,373 and $1,881 were made in fiscal 2021 and 2020, respectively, to settle a portion of our liabilities related to these interest rate swap agreements. These payments are reflected as cash outflows in the consolidated statements of cash flows within net cash (used in) provided by operating activities.

The following presents the fair value of derivative instruments included in the consolidated balance sheets:

Derivative type	Classification	April 24, 2021	April 25, 2020
Assets:			
Interest rate contracts	Other non-current assets	$ 2,120	$ 204
Liabilities:			
Interest rate contracts	Other accrued liabilities	3,776	6,789
Interest rate contracts	Other non-current liabilities	7,795	13,060
Total liability derivatives		$ 11,571	$ 19,849

The following tables present the pre-tax effect of derivative instruments on the consolidated statements of operations and other comprehensive income (loss):

		Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)		
		Fiscal Year Ended		
Derivatives in cash flow hedging relationships	Statements of operations	April 24, 2021	April 25, 2020	April 27, 2019
Interest rate contracts	Interest expense	$ (1,363)	$ (10,458)	$ (2,908)

		Amount of Gain (Loss) Recognized in Income on Derivatives		
		Fiscal Year Ended		
Derivatives not designated as hedging instruments	Statements of operations	April 24, 2021	April 25, 2020	April 27, 2019
Interest rate contracts	Other income, net	$ 1,151	$ (18,712)	$ (2,903)

There were no gains or losses recognized in other comprehensive income (loss) on cash flow hedging derivatives in fiscal 2021, 2020 or 2019.

We recorded no ineffectiveness during fiscal 2021, 2020 or 2019. As of April 24, 2021, the estimated pre-tax portion of accumulated other comprehensive loss that is expected to be reclassified into earnings over the next twelve months is $1,363, which will be recorded as an increase to interest expense.

6. Fair Value Measurements

Fair value is the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. The fair value hierarchy of measurements is categorized into one of three levels based on the lowest level of significant input used:

Level 1 – Quoted prices in active markets for identical assets and liabilities at the measurement date.

Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs for which there is little or no market data available. These inputs reflect management's assumptions of what market participants would use in pricing the asset or liability.

Our hierarchy for assets and liabilities measured at fair value on a recurring basis is as follows:

	April 24, 2021			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	$ 1,698	$ 1,698	$ —	$ —
DPP receivable - receivables securitization program	183,999	—	—	183,999
DPP receivable - customer financing	227,967	—	—	227,967
Derivative instruments	2,120	—	2,120	—
Total assets	$ 415,784	$ 1,698	$ 2,120	$ 411,966
Liabilities:				
Derivative instruments	$ 11,571	$ —	$ 11,571	$ —

	April 25, 2020			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	$ 3,391	$ 3,391	$ —	$ —
DPP receivable - receivables securitization program	117,327	—	—	117,327
DPP receivable - customer financing	228,019	—	—	228,019
Derivative instruments	204	—	204	—
Total assets	$ 348,941	$ 3,391	$ 204	$ 345,346
Liabilities:				
Derivative instruments	$ 19,849	$ —	$ 19,849	$ —

Cash equivalents – We value cash equivalents at their current market rates. The carrying value of cash equivalents approximates fair value and maturities are less than three months.

DPP receivable - receivables securitization program – We value this DPP receivable based on a discounted cash flow analysis using unobservable inputs, which include the estimated timing of payments and the credit quality of the underlying creditor. Significant changes in any of the significant unobservable inputs in isolation would not result in a materially different fair value estimate. The interrelationship between these inputs is insignificant.

DPP receivable - customer financing – We value this DPP receivable based on a discounted cash flow analysis using unobservable inputs, which include a forward yield curve, the estimated timing of payments and the credit quality of the underlying creditor. Significant changes in any of the significant unobservable inputs in isolation would not result in a materially different fair value estimate. The interrelationship between these inputs is insignificant.

Derivative instruments –Our derivative instruments consist of interest rate cap agreements and interest rate swaps. These instruments are valued using inputs such as interest rates and credit spreads.

Certain assets are measured at fair value on a non-recurring basis. These assets are not measured at fair value on an ongoing basis, but are subject to fair value adjustments under certain circumstances. We adjust the carrying value of our non-marketable equity securities to fair value when observable transactions of identical or similar securities occur, or due to an impairment.

During the fiscal year ended April 25, 2020, we recorded a pre-tax gain of $34,334 related to one of our investments in other income, net in our consolidated statements of operations and other comprehensive income (loss). This gain was based on the selling price of preferred stock in this investment that is similar to the preferred stock we own, and was adjusted for differences in liquidation preferences. As of April 24, 2021 and April 25, 2020, this investment had a carrying value of $51,628 and $51,628, respectively. There were no fair value adjustments to such assets during the fiscal years ended April 24, 2021 or April 27, 2019.

Our debt is not measured at fair value in the consolidated balance sheets. The estimated fair value of our debt as of April 24, 2021 and April 25, 2020 was $610,811 and $601,856, respectively, as compared to a carrying value of $588,295 and $587,766 at April 24, 2021 and April 25, 2020, respectively. The fair value of debt was measured using a discounted cash flow analysis based on expected market based yields (i.e., level 2 inputs).

The carrying amounts of receivables, net of allowances, accounts payable, and certain accrued and other current liabilities approximated fair value at April 24, 2021 and April 25, 2020.

7. Goodwill and Other Intangible Assets

The changes in the carrying value of goodwill for each of our reportable segments for the fiscal year ended April 24, 2021 were as follows:

	Balance at April 25, 2020	Other Activity	Balance at April 24, 2021
Dental	$ 138,724	$ 1,208	$ 139,932
Animal Health	—	—	—
Corporate	—	—	—
Total	$ 138,724	$ 1,208	$ 139,932

Other activity consists of the impact from foreign currency translation.

Balances of other intangible assets, excluding goodwill, were as follows:

	April 24, 2021			April 25, 2020		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Unamortized - indefinite lived:						
Trade name	$ 12,300	$ —	$ 12,300	$ 12,300	$ —	$ 12,300
Amortized - definite lived:						
Customer relationships	355,685	159,376	196,309	352,469	135,745	216,724
Trade names and trademarks	133,834	85,221	48,613	132,841	72,681	60,160
Developed technology and other	72,398	49,976	22,422	70,518	46,197	24,321
Total amortized intangible assets	561,917	294,573	267,344	555,828	254,623	301,205
Total identifiable intangible assets	$ 574,217	$ 294,573	$ 279,644	$ 568,128	$ 254,623	$ 313,505

With respect to the amortized intangible assets, future amortization expense is expected to approximate $37,303, $36,928, $36,270, $35,708 and $25,889 for fiscal 2022, 2023, 2024, 2025 and 2026, respectively. Actual amounts of amortization expense may differ from estimated amounts due to additional intangible asset acquisitions, changes in foreign currency exchange rates, impairment of intangible assets, accelerated amortization of intangible assets and other events.

8. Property and Equipment

Property and equipment consisted of the following:

	April 24, 2021	April 25, 2020
Land	$ 12,014	$ 11,919
Buildings	118,582	119,585
Leasehold improvements	31,125	29,427
Furniture and equipment	188,594	181,986
Computer hardware and software	244,537	226,114
Construction-in-progress [1]	17,665	89,604
Property and equipment, gross	612,517	658,635
Accumulated depreciation	(393,079)	(354,910)
Property and equipment, net	$ 219,438	$ 303,725

(1) Includes $6,326 and $68,728 of unamortized development costs of software to be sold as of April 24, 2021 and April 25, 2020, respectively.

9. Leases

We lease certain warehouses, office space, vehicles and equipment. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheets. We recognize lease expense for these leases on a straight-line basis over the lease term. We do not separate lease and non-lease components, and instead account for each lease and non-lease component associated with that lease as a single lease component. Some leases include one or more options to renew. The exercise of renewal options is at our sole discretion. Our lease agreements do not contain significant residual value guarantees, restrictions or covenants.

Total lease costs for the fiscal year ended April 24, 2021 and April 25, 2020 were $34,712 and $36,302, respectively, which include variable lease costs and short-term lease costs, which were immaterial.

The following table presents future maturities of lease liabilities:

2022	$ 34,304
2023	25,121
2024	15,569
2025	6,731
2026	1,826
After 2026	1,328
Total lease payments	84,879
Less: imputed interest	(4,309)
Present value of lease liabilities	$ 80,570

The following tables present other supplemental information related to leases:

	Fiscal Year Ended	
	April 24, 2021	April 25, 2020
Cash paid for amounts included in the measurement of operating lease liabilities	$ 37,054	$ 37,934
Lease assets obtained in exchange for new operating lease liabilities	$ 50,114	$ 28,321

	April 24, 2021	April 25, 2020
Weighted-average remaining lease term - operating leases	3.06 years	3.11 years
Weighted-average discount rate - operating leases	3.31 %	3.58 %

10. Debt

Our long-term debt consisted of the following:

		Carrying Value	
	Interest Rate	April 24, 2021	April 25, 2020
Senior notes due fiscal 2022 (1)	3.59 %	100,750	100,750
Senior notes due fiscal 2024 (1)	3.74 %	33,000	33,000
Senior notes due fiscal 2025 (2)	3.48 %	117,500	117,500
Senior notes due fiscal 2028 (3)	3.79 %	40,000	40,000
Term loan due fiscal 2024 (4)	1.36 %	300,000	300,000
Less: Deferred debt issuance costs		(2,955)	(3,484)
Total debt		588,295	587,766
Less: Current maturities of long-term debt		(100,750)	—
Long-term debt		$ 487,545	$ 587,766

(1) Issued in December 2011.
(2) Issued in March 2015.
(3) Issued in March 2018.
(4) Issued in December 2019, amended in February 2021. Interest rate is 1-month LIBOR plus 1.25% as of April 24, 2021.

Future principal payments due, based on stated contractual maturities for our long-term debt, were as follows as of April 24, 2021:

Fiscal Year	
2022	$ 100,750
2023	—
2024	333,000
2025	117,500
2026	—
Thereafter	40,000
Total	$ 591,250

In fiscal 2017, we entered into an amended credit agreement ("Amended Credit Agreement"), consisting of a $295,075 term loan and a $750,000 revolving line of credit. In March 2019, we permanently reduced the capacity under the revolving line of credit to $500,000. Interest on borrowings was variable and was determined as a base rate plus a spread. This spread, as well as a commitment fee on the unused portion of the facility, was based on our leverage ratio, as defined in the Amended Credit Agreement. During the quarter ended October 26, 2019, we repaid the remaining $81,558 outstanding under the unsecured term loan.

In December 2019, we entered into a senior unsecured term loan facility agreement (the “Term Facility Agreement”), consisting of a $300,000 term loan. Interest on borrowings was variable and was determined as a base rate plus a spread. This spread was based on our leverage ratio, as defined in the Term Facility Agreement. The proceeds were used to repay certain existing indebtedness, pay fees and expenses incurred in connection with the Term Facility Agreement, and finance our ongoing working capital and other general corporate purposes. The Term Facility was set to mature no later than December 20, 2022. As of April 25, 2020, $300,000 was outstanding under the Term Facility at an interest rate of 1.87%.

In fiscal 2021, we entered into an amendment, restatement and consolidation of the Amended Credit Agreement and the Term Facility Agreement with various lenders, including MUFG Bank, Ltd, as administrative agent. This amended and restated credit agreement (the “Credit Agreement”), dated February 16, 2021, consists of a $700,000 revolving credit facility and a $300,000 term loan facility, and will mature no later than February 2024. We used the facilities to refinance and consolidate the Amended Credit Agreement and the Term Facility Agreement, pay the fees and expenses incurred therewith, and finance our ongoing working capital and other general corporate purposes.

As of April 24, 2021, $300,000 was outstanding under the Credit Agreement term loan at an interest rate of 1.36% and $53,000 was outstanding under the Credit Agreement revolving credit facility at an interest rate of 1.34%.

During the three months ended January 25, 2020, we repaid certain indebtedness totaling $373,750. As a result, we recorded a pre-tax non-cash charge of $8,984 during the three months ended January 25, 2020. This charge relates to the January 2014 forward interest rate swap agreement and accelerated amortization of debt issuance costs.

We expect the collection of deferred purchase price receivables, existing cash balances and credit availability under existing debt facilities, less our funds used in operations, will be sufficient to meet our working capital needs and to finance our business over the remainder of fiscal 2021.

We are subject to various financial covenants under our debt agreements including the maintenance of leverage and interest coverage ratios. In the event of our default, any outstanding obligations may become due and payable immediately. We were in compliance with the covenants under our debt agreements as of April 24, 2021.

11. Income Taxes

The components of income (loss) before taxes were as follows:

	Fiscal Year Ended		
	April 24, 2021	April 25, 2020	April 27, 2019
Income (loss) before taxes			
United States	$ 166,251	$ (594,431)	$ 76,035
International	33,680	4,024	30,193
Total	$ 199,931	$ (590,407)	$ 106,228

Significant components of income tax expense (benefit) were as follows:

	Fiscal Year Ended		
	April 24, 2021	April 25, 2020	April 27, 2019
Current:			
Federal	$ 36,836	$ 18,300	$ (19)
Foreign	9,975	7,501	9,207
State	8,771	4,959	3,402
Total current expense	55,582	30,760	12,590
Deferred:			
Federal	(7,529)	(25,918)	9,709
Foreign	(362)	164	(53)
State	(2,869)	(6,046)	1,106
Total deferred (benefit) expense	(10,760)	(31,800)	10,762
Income tax expense (benefit)	$ 44,822	$ (1,040)	$ 23,352

U.S. Tax Reform

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was enacted into law. The Tax Act significantly revises the future ongoing U.S. federal corporate income tax by, among other things, lowering the U.S. federal corporate tax rate, implementing a territorial tax system, imposing a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, and created new taxes on foreign sourced earnings.

During the fiscal year ended April 27, 2019, we completed our accounting for the previously recorded provisional impacts of the Tax Act and recorded additional remeasurement benefit of $2,355 on U.S. deferred tax assets and liabilities and a reduction to the transition tax cost of $331.

While we have completed our accounting for the impacts of the Tax Act, changes in interpretation of the Tax Act, analysis of proposed and final regulations as they are issued, current and additional guidance from the Internal Revenue Service and/or state legislative actions as well as potential changes in accounting standards surrounding income taxes and the Tax Act may result in further, potentially material, changes to these completed computations.

On March 27, 2020, the “Coronavirus Aid, Relief and Economic Security (CARES) Act” was signed into law. The CARES Act, among other things, includes provisions relating to refundable employment tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. These benefits did not materially impact the Company’s effective tax rate for the fiscal years ended April 24, 2021 or April 25, 2020. On December 27, 2020, the Consolidated Appropriations Act was signed into law. The act extended numerous non-income tax benefits from the CARES Act. We are continuing to evaluate these tax related provisions as additional guidance from the Internal Revenue Service and/or state tax authorities becomes available.

Deferred tax assets and liabilities are included in other non-current assets and deferred income taxes on the consolidated balance sheets. Significant components of our deferred tax assets (liabilities) were as follows:

	April 24, 2021	April 25, 2020
Deferred tax assets:		
Capital accumulation plan	$ 1,051	$ 2,541
Inventory related items	12,250	10,354
Bad debt allowance	1,416	1,857
Stock-based compensation expense	7,036	7,486
Interest rate swap	1,261	1,580
Foreign tax credit	7,112	7,248
Lease liability	16,153	16,572
Other	242	2,945
Gross deferred tax assets	46,521	50,583
Less: Valuation allowance	(15,960)	(14,886)
Total net deferred tax assets	30,561	35,697
Deferred tax liabilities		
LIFO reserve	(25,913)	(32,630)
Amortizable intangibles	(61,023)	(69,254)
Goodwill	(13,902)	(11,848)
Property and equipment, net	(37,967)	(39,999)
Operating lease right-of-use assets, net	(15,547)	(16,195)
Total deferred tax liabilities	(154,352)	(169,926)
Deferred net long-term income tax liability	$ (123,791)	$ (134,229)

At April 24, 2021, we had a U.S. foreign tax credit asset that will expire in five years. In addition, we have deferred tax assets which would give rise to tax capital losses if triggered in the future. These losses can only be used against capital gain income. At this time, we believe that it is more likely than not that the foreign tax credit and potential capital loss carryforward attributes totaling $15,960 will not be fully utilized prior to expiration. As a result, a full valuation allowance has been established against these assets.

With regard to unremitted earnings of foreign subsidiaries generated after December 31, 2017, we do not currently provide for U.S. taxes since we intend to reinvest such undistributed earnings indefinitely outside of the United States. We continue to apply ASC 740 based on the provisions of the tax law that were in effect immediately prior to the enactment of the new law.

Income tax expense (benefit) varies from the amount computed using the U.S. statutory rate. The reasons for this difference and the related tax effects are shown below.

	Fiscal Year Ended		
	April 24, 2021	April 25, 2020	April 27, 2019
Tax at U.S. statutory rate	$ 41,984	$ (123,987)	$ 22,306
State tax provision, net of federal benefit	5,400	(466)	3,492
Effect of foreign taxes	2,594	7,277	2,728
Goodwill impairment	—	107,999	—
Legal settlement	—	11,088	—
ESOP	(2,286)	(2,393)	(2,465)
Other permanent differences	808	1,533	1,074
Tax reform	—	—	(2,686)
Other	(3,678)	(2,091)	(1,097)
Income tax expense (benefit)	$ 44,822	$ (1,040)	$ 23,352

We have accounted for the uncertainty in income taxes recognized in the financial statements in accordance with ASC Topic 740, “Income Taxes”. This standard clarifies the separate identification and reporting of estimated amounts that could be assessed upon audit. The potential assessments are considered unrecognized tax benefits, because, if it is ultimately determined they are unnecessary, the reversal of these previously recorded amounts will result in a beneficial impact to our financial statements.

As of April 24, 2021 and April 25, 2020, Patterson’s gross unrecognized tax benefits were $10,866 and $11,740, respectively. If determined to be unnecessary, these amounts (net of deferred tax assets of $2,055 and $2,113, respectively, related to the tax deductibility of the gross liabilities) would decrease our effective tax rate. The gross unrecognized tax benefits are included in other non-current liabilities on the consolidated balance sheets.

A summary of the changes in the gross amounts of unrecognized tax benefits is shown below.

	April 24, 2021	April 25, 2020
Balance at beginning of period	$ 11,740	$ 13,035
Additions for tax positions related to the current year	1,264	1,182
Additions for tax positions of prior years	20	218
Reductions for tax positions of prior years	(220)	(37)
Statute expirations	(1,938)	(2,289)
Settlements	—	(369)
Balance at end of period	$ 10,866	$ 11,740

We also recognize both interest and penalties with respect to unrecognized tax benefits as a component of income tax expense. As of April 24, 2021 and April 25, 2020, we had recorded $2,026 and $1,968, respectively, for interest and penalties. These amounts are also included in other non-current liabilities on the consolidated balance sheets. These amounts, net of related deferred tax assets, if determined to be unnecessary, would decrease our effective tax rate. During the year ended April 24, 2021, we recorded as part of tax expense $218 related to an increase in our estimated liability for interest and penalties.

Patterson files income tax returns, including returns for our subsidiaries, with federal, state, local and foreign jurisdictions. During fiscal 2021, the Internal Revenue Service (“IRS”) concluded an audit of fiscal year ended April 28, 2018. The IRS has either examined or waived examination for all periods up to and including our fiscal year ended April 28, 2018. In addition to the IRS, periodically, state, local and foreign income tax returns are examined by various taxing authorities. We do not believe that the outcome of these various examinations will have a material adverse impact on our financial statements.

12. Technology Partner Innovations, LLC ("TPI")

In fiscal 2019, we entered into an agreement with Cure Partners to form TPI, which offers a cloud-based practice management software, NaVetor, to its customers. Patterson and Cure Partners each contributed net assets of $4,000 to form TPI. We determined that TPI is a variable interest entity, and we consolidate the results of operations of TPI as we have concluded that we are the primary beneficiary of TPI. During fiscal 2021 and 2020, net loss attributable to the noncontrolling interest was $872 and $921, respectively, resulting in noncontrolling interests of $1,455 on the consolidated balance sheets at April 24, 2021.

13. Segment and Geographic Data

We present three reportable segments: Dental, Animal Health and Corporate. Dental and Animal Health are strategic business units that offer similar products and services to different customer bases. Dental provides a virtually complete range of consumable dental products, equipment and software, turnkey digital solutions and value-added services to dentists, dental laboratories, institutions, and other healthcare professionals throughout North America. Animal Health is a leading, full-line distributor in North America and the U.K. of animal health products, services and technologies to both the production-animal and companion-pet markets. Our Corporate segment is comprised of general and administrative expenses, including home office support costs in areas such as information technology, finance, legal, human resources and facilities. In addition, customer financing and other miscellaneous sales are reported within Corporate results. Corporate assets consist primarily of cash and cash equivalents, accounts receivable, property and equipment and long-term receivables. We evaluate segment performance based on operating income (loss). The costs to operate the fulfillment centers are allocated to the business units based on the through-put of the unit.

The following tables present information about our reportable segments and the geographic areas in which we operate:

	Fiscal Year Ended		
	April 24, 2021	April 25, 2020	April 27, 2019
Consolidated net sales			
United States	$ 4,877,070	$ 4,554,345	$ 4,638,184
United Kingdom	677,910	608,320	597,953
Canada	357,086	327,346	338,386
Total	$ 5,912,066	$ 5,490,011	$ 5,574,523
Dental net sales			
United States	$ 2,107,521	$ 1,900,539	$ 1,989,875
Canada	219,500	201,383	201,915
Total	$ 2,327,021	$ 2,101,922	$ 2,191,790
Animal Health net sales			
United States	$ 2,744,498	$ 2,601,970	$ 2,620,104
United Kingdom	677,910	608,320	597,953
Canada	137,586	125,963	136,471
Total	$ 3,559,994	$ 3,336,253	$ 3,354,528
Corporate net sales			
United States	$ 25,051	$ 51,836	$ 28,205
Total	$ 25,051	$ 51,836	$ 28,205

	Fiscal Year Ended		
	April 24, 2021	April 25, 2020 [1]	April 27, 2019 [1]
Consolidated net sales			
Consumable	$ 4,748,441	$ 4,374,829	$ 4,488,224
Equipment and software	822,267	749,390	753,937
Value-added services and other	341,358	365,792	332,362
Total	$ 5,912,066	$ 5,490,011	$ 5,574,523
Dental net sales			
Consumable	$ 1,314,261	$ 1,141,189	$ 1,221,022
Equipment and software	731,132	677,677	694,996
Value-added services and other	281,628	283,056	275,772
Total	$ 2,327,021	$ 2,101,922	$ 2,191,790
Animal Health net sales			
Consumable	$ 3,434,180	$ 3,233,640	$ 3,267,202
Equipment and software	91,135	71,713	58,941
Value-added services and other	34,679	30,900	28,385
Total	$ 3,559,994	$ 3,336,253	$ 3,354,528
Corporate net sales			
Value-added services and other	$ 25,051	$ 51,836	$ 28,205
Total	$ 25,051	$ 51,836	$ 28,205

[1] Certain sales were reclassified between categories to conform to the current period presentation.

	Fiscal Year Ended		
	April 24, 2021	April 25, 2020	April 27, 2019
Operating income (loss)			
Dental	$ 201,244	$ 168,304	$ 179,236
Animal Health	88,123	(594,743)	81,472
Corporate	(78,760)	(145,680)	(122,992)
Consolidated operating income (loss)	$ 210,607	$ (572,119)	$ 137,716
Depreciation and amortization			
Dental	$ 7,774	$ 8,434	$ 8,792
Animal Health	45,771	49,958	49,362
Corporate	23,004	23,790	24,619
Consolidated depreciation and amortization	$ 76,549	$ 82,182	$ 82,773

	April 24, 2021	April 25, 2020
Property and equipment, net		
United States	$ 209,361	$ 294,169
United Kingdom	2,471	2,030
Canada	7,606	7,526
Total property and equipment, net	$ 219,438	$ 303,725

	April 24, 2021	April 25, 2020
Total assets		
Dental	$ 863,718	$ 704,216
Animal Health	1,391,892	1,485,284
Corporate	495,901	525,850
Total assets	$ 2,751,511	$ 2,715,350

14. Stockholders' Equity

Dividends

The following table presents our declared cash dividends per share on our common stock for the past three years. Dividends were declared and paid in the same period during fiscal 2020 and 2019. In fiscal 2021, dividends were declared in the period presented and paid in the following quarter.

	Quarter			
Fiscal year	1	2	3	4
2021	$ 0.26	$ 0.26	$ 0.26	$ 0.26
2020	0.26	0.26	0.26	0.26
2019	0.26	0.26	0.26	0.26

Share Repurchases

During fiscal 2021, 2020 and 2019, we had no repurchases of shares of our common stock.

On March 16, 2021, the Board of Directors authorized a $500,000 share repurchase program through March 16, 2024. As of April 24, 2021, $500,000 remains available under the current repurchase authorization.

ESOP

In 1990, Patterson's Board of Directors adopted a leveraged ESOP. In fiscal 1991, under the provisions of the plan and related financing arrangements, Patterson loaned the ESOP $22,000 (the "1990 note") for the purpose of acquiring its then outstanding preferred stock, which was subsequently converted to common stock. The Board of Directors determines the contribution from the Company to the ESOP annually. The contribution is used to retire a portion of the debt, which triggers a release of shares that are then allocated to the employee participants. Shares of stock acquired by the plan are allocated to each participant who has completed 1000 hours of service during the plan year. In fiscal 2011, the final payment on the 1990 note was made and all remaining shares were released for allocation to participants.

In fiscal 2002, Patterson's ESOP and an ESOP sponsored by the Thompson Dental Company ("Thompson") were used to facilitate the acquisition and merger of Thompson into Patterson. The net result of this transaction was an additional loan of $12,612 being made to the ESOP and the ESOP acquiring 666 shares of common stock. The loan bore interest at then-current rates, but principal did not begin to amortize until fiscal 2012. Beginning in fiscal 2012 and through fiscal 2020, an annual payment of $200 plus interest was due. In fiscal 2021, a final payment of the outstanding principal and interest balance was due and was made. Of the 666 shares issued in the transaction, 98 were previously allocated to Thompson employees. The remaining 568 shares began to be allocated in fiscal 2004 as interest was paid on the loan.

In September 2006, we entered into a third loan agreement with the ESOP and loaned $105,000 (the “2006 note”) for the sole purpose of enabling the ESOP to purchase shares of our common stock. The ESOP purchased 3,160 shares with the proceeds from the 2006 note. Interest on the unpaid principal balance accrued at a rate equal to six-month LIBOR, with the rate resetting semi-annually. Interest payments were not required during the period from and including September 11, 2006 through April 30, 2010. On April 30, 2010, accrued and unpaid interest was added to the outstanding principal balance under the note, with interest thereafter accruing on the increased principal amount. Unpaid interest accruing after April 30, 2010 was due and payable on each successive April 30. In fiscal 2021, a final payment of the outstanding principal and interest balance was made. In fiscal 2012, Patterson contributed $20,214 to the ESOP, which then purchased 844 shares for allocation to the participants. No shares secured by the 2006 note were released prior to fiscal 2011.

At April 24, 2021, a total of 9,992 shares of common stock that have been allocated to participants remained in the ESOP and had a fair market value of $321,153. Related to the shares from the Thompson transaction, committed-to-be-released shares were 379 and no suspense shares remain. Finally, with respect to the 2006 note, committed-to-be-released shares were 230 and no suspense shares remain.

Unearned ESOP shares are not considered outstanding for the computation of earnings per share until the shares are committed for release to the participants. During fiscal 2021, 2020 and 2019, the compensation expense recognized related to the ESOP was $9,265, $14,419 and $13,740, respectively.

In fiscal 2021, we allocated the remaining suspense shares to eligible ESOP participants. We will recognize an income tax deduction on the unearned ESOP shares released. Such deductions will be limited to the ESOP’s original cost to acquire the shares. Going forward, we will no longer be contributing to the ESOP and instead will be making cash-based 401(k) contributions.

Dividends on allocated shares are passed through to the ESOP participants.

15. Stock-based Compensation

The consolidated statements of operations and other comprehensive income (loss) for fiscal 2021, 2020 and 2019 include pre-tax (after-tax) stock-based compensation expense of $21,223 ($16,387), $22,935 ($17,789) and $19,685 ($15,588), respectively. Pre-tax expense is included in operating expenses within the consolidated statements of operations and other comprehensive income (loss).

As of April 24, 2021, the total unrecognized compensation cost related to non-vested awards was $23,830, and it is expected to be recognized over a weighted average period of approximately 1.4 years.

2015 Omnibus Incentive Plan

In September 2015, our shareholders approved the 2015 Omnibus Incentive Plan ("Incentive Plan"), which was amended and restated in September 2018. The aggregate number of shares of common stock that may be issued is 11,500. The Incentive Plan authorizes various award types to be issued under the plan, including stock options, restricted stock awards, restricted stock units, stock appreciation rights, performance awards, non-employee director awards, cash-based awards and other stock-based awards. We issue new shares for stock option exercises, restricted stock award grants and also for vesting of restricted stock units and performance stock units. Awards that expire or are canceled without delivery of shares generally become available for reissuance under the plan.

At April 24, 2021, there were 3,832 shares available for awards under the Incentive Plan.

As a result of the approval of the Incentive Plan, awards are no longer granted under any prior equity incentive plan, but all outstanding awards previously granted under such prior plans will remain outstanding and subject to the terms of such prior plans. At April 24, 2021, there were 382 shares outstanding under prior plans.

Inducement Awards

On June 29, 2018, we issued a combination of non-statutory stock options and restricted stock units outside our Incentive Plan to our Chief Financial Officer. The stock option covers 99 shares of our common stock, has an exercise price of $22.67 per share, and has a 10-year term. Such award will vest, assuming continued employment, to the extent of one-third of the award on the first anniversary of the date of grant, one-third of the award on the second anniversary of the date of grant, and the remaining one-third of the award on the third anniversary of the date of grant. The restricted stock unit award covers 31 shares of our common stock. Such award will vest, assuming continued employment, to the extent of 50% of the award on the first anniversary of the date of grant and the remaining 50% of the award on the second anniversary of the date of grant.

Stock Option Awards

Stock options granted to employees expire no later than ten years after the date of grant. Awards typically vest over three or five years.

The fair value of stock options granted was estimated as of the grant date using a Black-Scholes option-pricing model with the following assumptions:

	Fiscal Year Ended		
	April 24, 2021	April 25, 2020	April 27, 2019
Expected dividend yield	4.4 %	4.7 %	4.5 %
Expected stock price volatility	34.6 %	26.8 %	24.6 %
Risk-free interest rate	0.4 %	1.8 %	2.9 %
Expected life (years)	6.0	6.0	6.2
Weighted average grant date fair value per share	$ 4.60	$ 3.37	$ 3.66

The following is a summary of stock option activity:

	Number of Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Balance as of April 25, 2020	2,433	$ 29.08	
Granted	540	23.57	
Exercised	(146)	23.29	
Canceled	(130)	28.62	
Balance as of April 24, 2021	2,697	$ 28.31	$ 22,969
Vested or expected to vest as of April 24, 2021	2,655	$ 28.39	$ 22,526
Exercisable as of April 24, 2021	1,035	$ 36.14	$ 5,718

The weighted average remaining contractual lives of options outstanding and options exercisable as of April 24, 2021 were 7.4 and 6.2 years, respectively.

Related to stock options exercised, the intrinsic value, cash received and tax benefits realized were $953, $3,399 and $129, respectively, in fiscal 2021; and $2, $13 and $0, respectively, in fiscal 2019. No stock options were exercised in fiscal 2020.

Restricted Stock

Restricted stock awards and restricted stock units granted to employees generally vest over a three, five or seven year period. Certain restricted stock awards, which are held by branch managers, are subject to accelerated vesting provisions beginning three years after the grant date, based on certain operating goals. Restricted stock awards are also granted to non-employee directors annually and vest over one year. The grant date fair value of restricted stock awards and restricted stock units is based on the closing stock price on the day of the grant. The total fair value of restricted stock awards and restricted stock units that vested in fiscal 2021, 2020 and 2019 was $11,672, $8,788 and $5,683, respectively.

The following is a summary of restricted stock award activity:

	Restricted Stock Awards	
	Shares	Weighted-Average Grant Date Fair Value
Outstanding at April 25, 2020	106	$ 32.71
Granted	33	24.66
Vested	(85)	30.93
Forfeitures	—	—
Outstanding at April 24, 2021	54	$ 30.63

The following is a summary of restricted stock unit activity:

	Restricted Stock Units	
	Shares	Weighted-Average Grant Date Fair Value
Outstanding at April 25, 2020	1,216	$ 27.16
Granted	513	23.62
Vested	(418)	27.82
Forfeitures	(70)	24.24
Outstanding at April 24, 2021	1,241	$ 25.65

Performance Unit Awards

In fiscal 2021, 2020 and 2019, we granted performance unit awards to certain executives which are earned at the end of a three-year period if certain operating goals are met. The number of shares to be received at vesting related to the fiscal 2021 awards will be determined by performance measured over three successive annual measurement periods and ultimately modified by Patterson's total shareholder return ("TSR") relative to the performance of companies in the S&P Midcap 400 Index measured over a three-year period. We estimate the grant date fair value of the TSR awards using the Monte Carlo valuation model. We recognize expense over the requisite service period based on the outcome that is probable for these awards. The total fair value of performance unit awards that vested in fiscal 2021 was $4,227. No performance unit awards vested in fiscal 2020 and 2019.

The following is a summary of performance unit award activity at target:

	Performance Unit Awards	
	Shares	Weighted-Average Grant Date Fair Value
Outstanding at April 25, 2020	362	$ 26.38
Granted	146	23.62
Vested	(133)	25.30
Forfeitures and cancellations	(87)	34.80
Outstanding at April 24, 2021	288	$ 22.94

Employee Stock Purchase Plan ("ESPP")

We sponsor an ESPP under which a total of 9,000 shares have been reserved for purchase by employees. Eligible employees may purchase shares at 85% of the lower of the fair market value of our common stock on the beginning of the annual offering period, or on the end of each quarterly purchase period, which occur on March 31, June 30, September 30 and December 31. The offering periods begin on January 1 of each calendar year and end on December 31 of each calendar year. At April 24, 2021, there were 1,734 shares available for purchase under the ESPP.

We estimate the grant date fair value of shares purchased under our ESPP using the Black-Scholes option pricing valuation model with the following assumptions:

	Fiscal Year Ended		
	April 24, 2021	April 25, 2020	April 27, 2019
Expected dividend yield	3.6 %	5.1 %	5.2 %
Expected stock price volatility	51.7 %	34.3 %	38.6 %
Risk-free interest rate	0.1 %	1.6 %	2.5 %
Expected life (years)	0.6	0.6	0.6
Weighted average grant date fair value per share	$ 8.77	$ 4.98	$ 5.21

16. Litigation

From time to time, we become involved in lawsuits, administrative proceedings, government subpoenas, and government investigations (which may, in some cases, involve our entering into settlement agreements or consent decrees), relating to antitrust, commercial, environmental, product liability, intellectual property, regulatory, employment discrimination, securities, and other matters, including matters arising out of the ordinary course of business. The results of any such proceedings cannot be predicted with certainty because such matters are inherently uncertain. Significant damages or penalties may be sought in some matters, and some matters may require years to resolve. We also may be subject to fines or penalties, and equitable remedies (including but not limited to the suspension, revocation or non-renewal of licenses).

We accrue for these matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Unless otherwise noted, with respect to the specific legal proceedings and claims described below, the amount or range or possible losses is not reasonably estimable. Adverse outcomes in some or all of these matters may result in significant monetary damages or injunctive relief against us that could adversely affect our ability to conduct our business. There also exists the possibility of a material adverse effect on our financial statements for the period in which the effect of an unfavorable outcome becomes probable and reasonably estimable.

On March 28, 2018, Plymouth County Retirement System ("Plymouth") filed a federal securities class action complaint against Patterson Companies, Inc. and its former CEO Scott P. Anderson and former CFO Ann B. Gugino in the U.S. District Court for the District of Minnesota in a case captioned Plymouth County Retirement System v. Patterson Companies, Inc., Scott P. Anderson and Ann B. Gugino, Case No. 0:18-cv-00871 MJD/SER. On November 9, 2018, the complaint was amended to add former CEO James W. Wiltz and former CFO R. Stephen Armstrong as individual defendants. Under the amended complaint, on behalf of all persons or entities that purchased or otherwise acquired Patterson's common stock between June 26, 2013 and February 28, 2018, Plymouth alleges that Patterson violated federal securities laws by failing to disclose that Patterson's revenue and earnings were "artificially inflated by Defendants' illicit, anti-competitive scheme with its purported competitors, Benco and Schein, to prevent the formation of buying groups that would allow its customers who were office-based practitioners to take advantage of pricing arrangements identical or comparable to those enjoyed by large-group customers." In its class action complaint, Plymouth asserts one count against Patterson for violating Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder and a second, related count against the individual defendants for violating Section 20(a) of the Exchange Act. Plymouth seeks compensatory damages, pre- and post-judgment interest and reasonable attorneys' fees and experts' witness fees and costs. On August 30, 2018, Gwinnett County Public Employees Retirement System and Plymouth County Retirement System, Pembroke Pines Pension Fund for Firefighters and Police Officers, Central Laborers Pension Fund were appointed lead plaintiffs. On January 18, 2019, Patterson and the individual defendants filed a motion to dismiss the amended complaint. On July 25, 2019, the U.S. Magistrate Judge issued a report and recommendation that the motion to dismiss be granted in part and denied in part. The report and recommendation, among other things, recommends the dismissal of all claims against individual defendants Ann B. Gugino, R. Stephen Armstrong and James W. Wiltz. On September 10, 2019, the District Court adopted the Magistrate Judge's report and recommendation. On September 28, 2020, the District Court granted plaintiffs' motion to certify the class, appoint class representatives and appoint class counsel. On October 12, 2020, Patterson and the remaining individual defendant, Mr. Anderson, filed a Rule 23(f) petition for interlocutory appeal of the class certification order with the Eighth Circuit Court of Appeals in which the defendants sought clarification of the standard for rebutting the *Basic* presumption of class-wide reliance in securities class actions. On October 13, 2020, Patterson and Mr. Anderson filed a motion to stay the underlying proceeding with the District Court pending the possibility of interlocutory appeal. On November 9, 2020, the District Court denied defendants' motion to stay and on November 12, 2020, the Eighth Circuit Court of

Appeals denied defendants' Rule 23(f) petition. On May 17, 2021, Patterson and Mr. Anderson filed a motion for summary judgment and a motion to exclude plaintiff's expert. While the outcome of litigation is inherently uncertain, we believe that the class action complaint is without merit, and we are vigorously defending ourselves in this litigation. We do not anticipate that this matter will have a material adverse effect on our financial statements. Patterson has also received, and responded to, requests under Minnesota Business Corporation Act § 302A.461 to inspect corporate books and records relating to the issues raised in the securities class action complaint and certain antitrust litigation.

On October 1, 2018, Sally Pemberton filed a stockholder derivative complaint against Patterson Companies, Inc., as a nominal defendant, and the following former and current officers and directors of Patterson: Scott Anderson, Ann Gugino, Mark Walchirk, John Buck, Alex Blanco, Jody Feragen, Sarena Lin, Ellen Rudnick, Neil Schrimsher, Les Vinney, James Wiltz, Paul Guggenheim, David Misiak and Tim Rogan as individual defendants in the U.S. District Court for the District of Minnesota in a case captioned Sally Pemberton v. Scott P. Anderson, et al., Case No. 18-CV-2818 (PJS/HB). Derivatively on behalf of Patterson, plaintiff alleges that Patterson, with Benco and Henry Schein, "engage[d] in a conspiracy in restraint of trade, whereby the companies agreed to refuse to offer discounted prices or otherwise negotiate with GPOs, agreed to fix margins on dental supplies and equipment, agreed not to poach one another's customers or sales representatives, and agreed to block the entry and expansion of rival distributors." Plaintiff further alleges that the individual defendants failed to disclose Patterson's alleged "antitrust misconduct" to the public and purportedly caused Patterson to repurchase $412,800 of its own stock at prices that were artificially inflated. In the derivative complaint, plaintiff asserts six counts against the individual defendants for: (i) breach of fiduciary duty; (ii) waste of corporate assets; (iii) unjust enrichment; (iv) violations of Section 14(a) of the Exchange Act; (v) violations of Section 10(b) and Rule 10b-5 of the Exchange Act and (vi) violations of Section 20(a) of the Exchange Act. Plaintiff seeks compensatory damages with pre-judgment and post-judgment interest, costs, disbursements and reasonable attorneys' fees, experts' fees, costs and expenses, and an order awarding restitution from the individual defendants and directing Patterson "to take all necessary actions to reform and improve its corporate governance and internal procedures." On September 10, 2019, the Honorable Patrick J. Schiltz dismissed this action without prejudice because the plaintiff failed to make a pre-suit demand on Patterson's Board of Directors. On October 31, 2019, Patterson's Board received a written demand to initiate litigation against its officers and directors based on the claims Ms. Pemberton originally presented in her complaint. Following this demand, and after consultation with legal counsel, effective March 16, 2020, the Board adopted a resolution appointing Professor John Matheson and The Honorable George McGunnigle, retired Judge of Hennepin County District Court, as a special litigation committee pursuant to Minnesota Statutes Section 302A.241. Pursuant to the resolution, the special litigation committee has complete power and authority to investigate the demand, analyze the legal rights or remedies of Patterson, determine whether those rights or remedies should be pursued, and respond to Ms. Pemberton on behalf of Patterson.

On August 28, 2018, Kirsten Johnsen filed a stockholder derivative complaint against Patterson Companies, Inc., as a nominal defendant, and the following former and current officers and directors of Patterson: Scott Anderson, Ann Gugino, James Wiltz, John Buck, Jody Feragen, Ellen Rudnick, Les Vinney, Neil Schrimsher, Sarena Lin, Harold Slavkin, Alex Blanco and Mark Walchirk as individual defendants in Hennepin County District Court in a case captioned Kirsten Johnsen v. Scott P. Anderson et al., Case No. 27-CV-18-14315. Derivatively on behalf of Patterson, plaintiff alleges that Patterson "suppressed price competition and maintained supracompetitive prices for dental supplies and equipment by entering into agreements with Henry Schein and Benco to: (i) fix margins for dental supplies and equipment; and (ii) block the entry and expansion of lower-margin, lower-priced, rival dental distributors through threatened and actual group boycotts." Plaintiff further alleges that the individual defendants failed to disclose Patterson's alleged "price-fixing scheme" to the public and purportedly "caused Patterson to repurchase over $412,800 worth of its own stock at artificially inflated prices." In the derivative complaint, plaintiff asserts three counts against the individual defendants for: (i) breach of fiduciary duty; (ii) waste of corporate assets; and (iii) unjust enrichment. Plaintiff seeks compensatory damages, equitable and injunctive relief as permitted by law, costs, disbursements and reasonable attorneys' fees, accountants' fees and experts' fees, costs and expenses, and an order awarding restitution from the individual defendants and directing Patterson "to take all necessary actions to reform and improve its corporate governance and internal procedures." On February 19, 2019, the Hennepin County District Court ordered this litigation stayed pending resolution of the above-described case brought by Sally Pemberton. On September 10, 2019, the Honorable Patrick J. Schiltz dismissed *Pemberton* without prejudice because the plaintiff failed to make a pre-suit demand on Patterson's Board of Directors. On November 5, 2019, the defendants in Johnsen moved to dismiss such action based on plaintiff's failure to make a pre-suit demand or otherwise properly plead demand futility. On December 12, 2019, in light of the outcome in *Pemberton*, the defendants and Johnsen entered into a stipulation for voluntary dismissal of the *Johnsen* action, which the court granted on December 13, 2019. On April 27, 2020, Patterson's Board received a written demand to initiate litigation against its officers and directors based on the claims Ms. Johnsen originally presented in her complaint. Effective June 30, 2020, the Board adopted a resolution expanding the scope of the previously constituted special litigation committee to include this matter. Pursuant to the resolution, the special litigation committee has complete power and authority to investigate the demand, analyze the legal rights or remedies of Patterson, determine whether those rights or remedies should be pursued, and respond to Ms. Johnsen on behalf of Patterson.

On October 27, 2020, Patterson's Board received a written demand from Matthew Davis to undertake an independent investigation and take action to remedy alleged breaches of fiduciary duties by the following current and former directors and officers of Patterson: John Buck, Scott Anderson, Stephen Armstrong, Ann Gugino, Mark Walchirk, Alex Blanco, Jody Feragen, Sarena Lin, Ellen Rudnick, Neil Schrimsher, Les Vinney, James Wiltz, Paul Guggenheim, David Misiak, Harold Slavkin and Tim Rogan. The demand arises from the allegations that Patterson (a) conspired with Henry Schein and Benco over a multi-year period to boycott GPOs and fix dental supply prices; and (b) issued a series of materially false and misleading statements in connection with such scheme. The demand seeks the institution of an action for breach of fiduciary duty and appropriate remedial measures, including obtaining damages from all persons unjustly enriched. Effective November 20, 2020, Patterson's Board adopted a resolution expanding the scope of the previously constituted special litigation committee to include this matter. Pursuant to the resolution, the special litigation committee has complete power and authority to investigate the demand, analyze the legal rights or remedies of Patterson, determine whether those rights or remedies should be pursued, and respond to Mr. Davis on behalf of Patterson.

17. Quarterly Results (unaudited)

Quarterly results are determined in accordance with the accounting policies used for annual data and include certain items based upon estimates for the entire year. All fiscal quarters presented include results for 13 weeks.

	Quarter Ended			
	April 24, 2021	January 23, 2021	October 24, 2020	July 25, 2020
Net sales	$ 1,561,793	$ 1,551,268	$ 1,553,168	$ 1,245,837
Gross profit	304,405	324,541	320,368	253,816
Operating income (loss)	37,348	61,681	73,706	37,872
Net income (loss)	28,514	48,567	53,826	24,202
Net loss attributable to noncontrolling interests	(241)	(192)	(234)	(205)
Net income (loss) attributable to Patterson Companies, Inc.	$ 28,755	$ 48,759	$ 54,060	$ 24,407
Earnings (loss) per share attributable to Patterson Companies, Inc.:				
Basic	$ 0.30	$ 0.51	$ 0.57	$ 0.26
Diluted	$ 0.30	$ 0.50	$ 0.56	$ 0.25

	Quarter Ended			
	April 25, 2020 (1)	January 25, 2020	October 26, 2019 (2)	July 27, 2019 (3)
Net sales	$ 1,286,461	$ 1,456,155	$ 1,418,744	$ 1,328,651
Gross profit	294,032	311,830	301,494	290,054
Operating income (loss)	(614,463)	43,816	(18,146)	16,674
Net income (loss)	(608,797)	22,972	(33,349)	29,807
Net loss attributable to noncontrolling interests	(211)	(255)	(220)	(235)
Net income (loss) attributable to Patterson Companies, Inc.	$ (608,586)	$ 23,227	$ (33,129)	$ 30,042
Earnings (loss) per share attributable to Patterson Companies, Inc.:				
Basic	$ (6.44)	$ 0.25	$ (0.35)	$ 0.32
Diluted	$ (6.44)	$ 0.24	$ (0.35)	$ 0.32

(1) In the fourth quarter of fiscal 2020, we recorded goodwill impairment charges totaling $675,055 in our Animal Health segment. See Note 1 for additional information. In addition, the COVID-19 virus had a significant impact on our businesses in the fourth quarter of fiscal 2020. Through March 2020, sales in our Dental and Animal Health segments were up year over year. In April 2020, our Dental segment sales were down approximately 71% and our Animal Health segment sales were down approximately 9%, as compared to April 2019. In addition, operating expenses were also down significantly in April 2020 as certain variable expenses decreased with sales.

(2) We incurred costs and expenses of $58,300 during the second quarter of fiscal 2020 related to the then-probable settlement of an investigation by the U.S. Attorney's Office for the Western District of Virginia.

(3) We recorded a pre-tax gain of $34,334 related to one of our investments during the first quarter of fiscal 2020. This gain was based on the selling price of preferred stock in this investment that is similar to the preferred stock we own, and was adjusted for differences in liquidation preferences. In addition, we incurred expenses of $17,666 during the first quarter of fiscal 2020 related to the settlement of litigation with SourceOne Dental, Inc.

18. Accumulated Other Comprehensive Loss ("AOCL")

The following table summarizes the changes in AOCL as of April 24, 2021:

	Cash Flow Hedges	Currency Translation Adjustment	Total
AOCL at April 25, 2020	$ (5,538)	$ (91,501)	$ (97,039)
Other comprehensive income before reclassifications	—	33,405	33,405
Amounts reclassified from AOCL	1,042	—	1,042
AOCL at April 24, 2021	$ (4,496)	$ (58,096)	$ (62,592)

The amounts reclassified from AOCL during fiscal 2021 represent gains and losses on cash flow hedges, net of taxes of $321. The impact to the consolidated statements of operations and other comprehensive income (loss) was an increase to interest expense of $1,363 for fiscal 2021.

19. Subsequent Events

During the first quarter of fiscal 2022, we entered into an agreement to sell a portion of one of our investments, which we expect to close in the first quarter of fiscal 2022. We expect to receive cash proceeds of approximately $54,000, and to record a pre-tax gain of approximately $28,000 in other income, net in our consolidated statements of operations and other comprehensive income (loss) as a result of this sale. Also related to this transaction, we expect to record a non-cash gain in the first quarter of fiscal 2022 related to the remaining portion of this investment.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 of the Securities and Exchange Act of 1934 (the “Exchange Act”). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of April 24, 2021. Disclosure controls and procedures are defined by Rules 13a-15(e) and 15d-15(e) of the Exchange Act as controls and other procedures that are designed to ensure that information required to be disclosed by Patterson in reports filed with the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management’s Annual Report on Internal Control Over Financial Reporting

The management of Patterson Companies, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control system is designed to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we assessed the effectiveness of our internal control over financial reporting as of April 24, 2021, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework* (2013). Based on this assessment, management has concluded that our internal control over financial reporting was effective as of April 24, 2021. Ernst & Young LLP, the independent registered public accounting firm that audited our consolidated financial statements included in Item 8, *Financial Statements and Supplementary Data,* of this Annual Report on Form 10-K, has issued an unqualified report on our internal control over financial reporting as of April 24, 2021.

/s/ Mark S. Walchirk
President and Chief Executive Officer

/s/ Donald J. Zurbay
Chief Financial Officer and Treasurer

The report of our independent registered public accounting firm on internal control over financial reporting is included in Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended April 24, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding the directors of Patterson is incorporated herein by reference to the descriptions set forth under the caption “Proposal No. 1 Election of Directors” in Patterson’s Proxy Statement for its Annual Meeting of Shareholders to be held on September 13, 2021 (the “2021 Proxy Statement”). Information regarding executive officers of Patterson is incorporated herein by reference to Item 1 of Part I of this Form 10-K under the caption “Information About Our Executive Officers.” Information regarding compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated herein by reference to the information set forth under the caption “Section 16(a) Reports” in the 2021 Proxy Statement. The information called for by Item 10, as to the audit committee and the audit committee financial expert, is set forth under the captions “Proposal No. 1 Election of Directors” and “Our Board of Directors and Committees” in the 2021 Proxy Statement and such information is incorporated by reference herein.

Code of Ethics

We have adopted and published a Code of Conduct, which provides an overview of the laws, regulations, and company policies that apply to our employees and our directors and is intended to comply with applicable NASDAQ Marketplace Rules. Our Code of Conduct is available on our website (www.pattersoncompanies.com) under the section “Investor Relations – Corporate Governance.” We intend to satisfy the disclosure requirement of Form 8-K regarding an amendment to, or waiver from, a provision of our Code of Conduct that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions and that relates to any element of the code of ethics definition enumerated in Item 406(b) of Regulation S-K by posting such information on our website at the address and location specified above.

Item 11. EXECUTIVE COMPENSATION

Information regarding executive compensation is incorporated herein by reference to the information set forth under the caption “Executive Compensation” in the 2021 Proxy Statement. Information regarding director compensation is incorporated herein by reference to the information set forth under the caption “Non-Employee Director Compensation” in the 2021 Proxy Statement. Information regarding the compensation committee and its report is incorporated herein by reference to the information set forth under the caption “Our Board of Directors and Committees - Committee Responsibilities - Our Compensation Committee and Its Report” in the 2021 Proxy Statement.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding securities authorized for issuance under equity compensation plans is incorporated herein by reference to the information set forth under the caption “Equity Compensation Plan Information” in the 2021 Proxy Statement. Information regarding the security ownership of certain beneficial owners and management is incorporated herein by reference to the information set forth under the caption “Security Ownership of Certain Beneficial Owners and Management” in the 2021 Proxy Statement.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information regarding transactions with related persons is incorporated herein by reference to the information set forth under the caption “Certain Relationships and Related Transactions” in the 2021 Proxy Statement. Information regarding director independence is incorporated herein by reference to the information set forth under the caption “Our Board of Directors and Committees” in the 2021 Proxy Statement.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information relating to principal accounting fees and services and pre-approval policies and procedures is incorporated herein by reference to the information set forth under the caption “Proposal No. 4 Ratification of Selection of Independent Registered Public Accounting Firm – Principal Accountant Fees and Services” in the 2021 Proxy Statement.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements.

The following Consolidated Financial Statements and supplementary data of Patterson and its subsidiaries are included in Part II, Item 8:

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets

Consolidated Statements of Operations and Other Comprehensive Income (Loss)

Consolidated Statement of Changes in Stockholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

2. Financial Statement Schedules.

The following financial statement schedule is filed herewith: Schedule II – Valuation and Qualifying Accounts

Schedules other than that listed above have been omitted because they are not applicable or the required information is included in the financial statements or notes thereto.

3. Exhibits.

Exhibit	Document Description
3.1	Restated Articles of Incorporation (incorporated by reference to our Quarterly Report on Form 10-Q, filed September 9, 2004 (File No. 000-20572)).
3.2	Amended and Restated Bylaws (incorporated by reference to our Current Report on Form 8-K, filed December 13, 2013 (File No. 000-20572)).
4.1	Specimen form of Common Stock Certificate (incorporated by reference to our Quarterly Report on Form 10-Q, filed September 9, 2004 (File No. 000-20572)).
4.2	Description of Securities (incorporated by reference to our Annual Report on Form 10-K, filed June 24, 2020 (File No. 000-20572).
10.1	Patterson Companies, Inc. Summary of Material Terms of Management Incentive Compensation Plan for Fiscal 2021 (filed herewith).**
10.2	Patterson Companies, Inc. Amended and Restated Employee Stock Purchase Plan (incorporated by reference to Annex A to our Definitive Schedule 14A (Proxy Statement), filed August 2, 2019 (File No. 000-20572)).**
10.3	Patterson Dental Company Amended and Restated Employee Stock Ownership Plan, effective May 1, 2001 (incorporated by reference to our Annual Report on Form 10-K, filed July 25, 2002 (File No. 000-20572)).**
10.4	Deferred Profit Sharing Plan for the Employees of Patterson Dental Canada Inc. (incorporated by reference to our Definitive Proxy Statement, filed July 28, 2008 (File
10.5	Patterson Companies, Inc. Amended and Restated Equity Incentive Plan (incorporated by reference to our Definitive Proxy Statement, filed August 7, 2012 (File No.
10.6	Patterson Companies, Inc. 2014 Sharesave Plan (incorporated by reference to our Definitive Proxy Statement, filed August 5, 2014 (File No. 000-20572)).**

10.7	Patterson Companies, Inc. Amended and Restated 2015 Omnibus Incentive Plan (incorporated by reference to Annex A to our Definitive Schedule 14A (Proxy Statement), filed August 6, 2018 (File No. 000-20572)).**
10.8	The Executive Nonqualified Excess Plan (incorporated by reference to our Annual Report on Form 10-K, filed June 24, 2020 (File No. 000-20572)).**
10.9	Form of Non-Statutory Stock Option Agreement under the Amended and Restated 2015 Omnibus Incentive Plan (filed herewith). **
10.10	Form of Restricted Stock Unit Agreement for Directors under the Amended and Restated 2015 Omnibus Incentive Plan (filed herewith).**
10.11	Form of Restricted Stock Unit Agreement for Executive Officers under the Amended and Restated 2015 Omnibus Incentive Plan (filed herewith).**
10.12	Form of Performance Share Unit Award Agreement under the Amended and Restated 2015 Omnibus Incentive Plan (filed herewith).**
10.13	Employment Agreement by and between Patterson Companies, Inc. and Mark S. Walchirk, dated October 23, 2017 (incorporated by reference to our Current Report on Form 8-K, filed October 24, 2017 (File No. 000-20572)).**
10.14	Inducement RSU Award Agreement by and between Patterson Companies, Inc. and Mark S. Walchirk, dated December 1, 2017 (incorporated by reference to our Annual Report on Form 10-K, filed June 27, 2018 (File No. 000-20572)).**
10.15	Amendment No. 1 to Employment Agreement by and between Patterson Companies, Inc. and Mark S. Walchirk, dated April 17, 2020 (incorporated by reference to our Current Report on Form 8-K, filed April 20, 2020 (File No. 000-20572)).**
10.16	Offer Letter by and between Patterson Companies, Inc. and Donald J. Zurbay, effective May 17, 2018 (incorporated by reference to our Current Report on Form 8-K, filed May 23, 2018 (File No. 000-20572)).**
10.17	Form of Inducement, Severance & Change in Control Agreement by and between Patterson Companies, Inc. and Donald J. Zurbay (incorporated by reference to our Current Report on Form 8-K, filed May 23, 2018 (File No. 000-20572)).**
10.18	Form of Inducement Non Statutory Stock Option Agreement by and between Patterson Companies, Inc. and Donald J. Zurbay (incorporated by reference to our Current Report on Form 8-K, filed May 23, 2018 (File No. 000-20572)).**
10.19	Form of Inducement RSU Agreement by and between Patterson Companies, Inc. and Donald J. Zurbay (incorporated by reference to our Current Report on Form 8-K, filed May 23, 2018 (File No. 000-20572)).**
10.20	Inducement, Severance and Change-in-Control Agreement by and between Patterson Companies, Inc. and Eric Shirley, dated February 4, 2019 (incorporated by reference to our Annual Report on Form 10-K, filed June 26, 2019 (File No. 000-20572).**
10.21	Restrictive Covenants, Severance and Change-in-Control Agreement by and between Patterson Companies, Inc. and Kevin M. Pohlman, dated June 11, 2018 (incorporated by reference to our Current Report on Form 8-K, filed June 12, 2018 (File No.
10.22	Restrictive Covenants, Severance and Change-in-Control Agreement by and between Patterson Companies, Inc. and Les B. Korsh, dated June 11, 2018 (incorporated by reference to our Current Report on Form 8-K, filed June 12, 2018 (File No.
10.23	Inducement, Severance and Change-in-Control Agreement by and between Patterson Companies, Inc. and Andrea Frohning, dated May 21, 2018 (incorporated by reference to our Annual Report on Form 10-K, filed June 26, 2019 (File No. 000-20572).**

10.24	Receivables Sale Agreement, dated as May 10, 2002, by and among Patterson Dental Supply, Inc., Webster Veterinary Supply, Inc., and PDC Funding Company, LLC, conformed through Amendment No. 4, dated as of October 9, 2018 (incorporated by reference to our Quarterly Report on Form 10-Q, filed March 6, 2019 (File No.
10.25	Third Amended and Restated Receivables Purchase Agreement dated as of December 3, 2010, among PDC Funding Company, LLC, as seller, Patterson Companies, Inc., as servicer, the conduits party thereto, the financial institutions party thereto, the purchaser agents party thereto, and MUFG Bank, Ltd. (f.k.a. The Bank of Tokyo-Mitsubishi UFJ, Ltd.), as agent, conformed through Twentieth Amendment dated February 5, 2021 (incorporated by reference to our Quarterly Report on Form 10-Q,
10.26	Second Amended and Restated Contract Purchase Agreement dated as of July 20, 2020, among PDC Funding Company II, LLC, as seller, Patterson Companies, Inc., as servicer, the purchasers party thereto, and Fifth Third Bank, as agent (incorporated by reference to our Quarterly Report on Form 10-Q, filed September 3, 2020 (File No.
10.27	Amended and Restated Receivables Sales Agreement dated August 12, 2011 by and among Patterson Dental Supply, Inc., Webster Veterinary Supply, Inc. and PDC Funding Company II, LLC (incorporated by reference to our Annual Report on Form 10-K, filed June 24, 2015 (File No. 000-20572)).
10.28	Note Purchase Agreement, dated December 8, 2011, by and among Patterson Companies, Inc., Patterson Medical Holdings, Inc., Patterson Medical Supply, Inc., Patterson Dental Holdings, Inc., Patterson Dental Supply, Inc., Webster Veterinary Supply, Inc., Webster Management, LP, conformed through Third Amendment, dated April 24, 2020 (incorporated by reference to our Annual Report on Form 10-K, filed
10.29	Note Purchase Agreement, dated March 23, 2015, by and among Patterson Companies, Inc., Patterson Medical Holdings, Inc., Patterson Medical Supply, Inc., Patterson Dental Holdings, Inc., Patterson Dental Supply, Inc., Patterson Veterinary Supply, Inc., and Patterson Management, LP, conformed through Second Amendment, dated April 24, 2020 (incorporated by reference to our Annual Report on Form 10-K,
10.30	Second Amended and Restated Credit Agreement dated as of February 16, 2021, by and among Patterson Companies, Inc., as borrower, MUFG Bank, Ltd., as administrative agent, and certain lenders party thereto (incorporated by reference to our Current Report on Form 8-K, filed February 16, 2021 (File No. 000-20572)).
10.31	Note Purchase Agreement, dated as of March 29, 2018, among Patterson Companies, Inc., and certain of its named subsidiaries as borrowers, and various private lenders, conformed through Second Amendment, dated April 24, 2020 (incorporated by reference to our Annual Report on Form 10-K, filed June 24, 2020 (File No.
10.32	Receivables Purchase Agreement, dated as of July 24, 2018, by and among Patterson Dental Supply, Inc., as servicer, PDC Funding Company III, LLC, as seller, purchasers from time to time party thereto, and MUFG Bank, Ltd., as agent, conformed through Seventh Amendment, dated April 23, 2021 (filed herewith).
10.33	Receivables Sale Agreement, dated as of July 24, 2018, by and between Patterson Dental Supply, Inc., as seller, and PDC Funding Company III, LLC, as buyer (incorporated by reference to our Current Report on Form 8-K, filed July 25, 2018 (File
10.34	Loan Agreement, dated December 20, 2019, among Patterson Companies, Inc., the lenders from time to time parties thereto, and MUFG Bank Ltd., as administrative agent (incorporated by reference to our Current Report on Form 8-K, filed December 23, 2019 (File No. 000-20572).
10.35	Receivables Purchase Agreement, dated as of January 15, 2020, by and among Patterson Veterinary Supply, Inc., as servicer, PDC Funding Company IV, LLC, as seller, purchasers from time to time party thereto, and MUFG Bank, Ltd., as agent, conformed through Fourth Amendment, dated April 23, 2021 (filed herewith).

10.36	Receivables Sale Agreement, dated as of January 15, 2020, by and between Patterson Veterinary Supply, Inc., as seller, and PDC Funding Company IV, LLC, as buyer (incorporated by reference to our Current Report on Form 8-K, filed January 17,
21	Subsidiaries (filed herewith).
23	Consent of Independent Registered Public Accounting Firm (filed herewith).
31.1	Certification of the Chief Executive Officer pursuant to Rules 13a-4(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-4(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101	(Filed Electronically) The following financial information from our Annual Report on Form 10-K for fiscal 2021, formatted in Inline eXtensible Business Reporting Language (iXBRL): (i) the consolidated balance sheets, (ii) the consolidated statements of operations and other comprehensive income (loss), (iii) the consolidated statements of changes in stockholders' equity, (iv) the consolidated statements of cash flows and (v) the notes to the consolidated financial statements.(*)

(*) The iXBRL related information in Exhibit 101 to this Annual Report on Form 10-K shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

** Indicates management contract or compensatory plan or agreement.

(b) See Index to Exhibits.

(c) See Schedule II.

Item 16. Form 10-K Summary.

None.

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

PATTERSON COMPANIES, INC.

(In thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Year ended April 24, 2021					
Deducted from asset accounts:					
Allowance for doubtful accounts	$ 5,123	$ 2,559	$ —	$ 1,544	$ 6,138
LIFO inventory adjustment	$ 99,726	$ 21,049	$ —	$ —	$ 120,775
Inventory obsolescence reserve	25,526	45,761	—	41,658	29,629
Total inventory reserve	$ 125,252	$ 66,810	$ —	$ 41,658	$ 150,404
Year ended April 25, 2020					
Deducted from asset accounts:					
Allowance for doubtful accounts	$ 6,772	$ 2,008	$ —	$ 3,657	$ 5,123
LIFO inventory adjustment	$ 91,342	$ 8,384	$ —	$ —	$ 99,726
Inventory obsolescence reserve	10,099	27,405	—	11,978	25,526
Total inventory reserve	$ 101,441	$ 35,789	$ —	$ 11,978	$ 125,252
Year ended April 27, 2019					
Deducted from asset accounts:					
Allowance for doubtful accounts	$ 9,537	$ 7,333	$ —	$ 10,098	$ 6,772
LIFO inventory adjustment	$ 82,105	$ 9,237	$ —	$ —	$ 91,342
Inventory obsolescence reserve	5,376	30,995	—	26,272	10,099
Total inventory reserve	$ 87,481	$ 40,232	$ —	$ 26,272	$ 101,441

SIGNATURES

Pursuant to the requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	PATTERSON COMPANIES, INC.
Dated: June 23, 2021	By /s/ Mark S. Walchirk
	Mark S. Walchirk
	President and Chief Executive Officer, Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

		Date
/s/ Mark S. Walchirk Mark S. Walchirk	President and Chief Executive Officer, Director (Principal Executive Officer)	June 23, 2021
/s/ Donald J. Zurbay Donald J. Zurbay	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	June 23, 2021
/s/ John D. Buck John D. Buck	Chairman of the Board	June 23, 2021
/s/ Alex N. Blanco Alex N. Blanco	Director	June 23, 2021
/s/ Jody H. Feragen Jody H. Feragen	Director	June 23, 2021
/s/ Robert C. Frenzel Robert C. Frenzel	Director	June 23, 2021
/s/ Francis J. Malecha Francis J. Malecha	Director	June 23, 2021
/s/ Ellen A. Rudnick Ellen A. Rudnick	Director	June 23, 2021
/s/ Neil A. Schrimsher Neil A. Schrimsher	Director	June 23, 2021

(This page intentionally left blank)

Corporate Headquarters

1031 Mendota Heights Road
St. Paul, MN 55120-1419
651.686.1600
www.pattersoncompanies.com

Independent Auditors

Ernst & Young LLP
Minneapolis, MN

Legal Counsel

Taft Stettinius & Hollister LLP
Minneapolis, MN

Stock Transfer Agent

EQ Shareowner Services
1110 Centre Pointe Curve, Suite 101
Mendota Heights, MN 55120-4100
1-800-401-1957

Investor Relations Contact

John M. Wright
Vice President, Investor Relations

Annual Meeting

The annual meeting of shareholders of Patterson Companies, Inc. will be held virtually at 4:30 p.m., Central Daylight Saving Time, on Monday, September 13, 2021. To attend the annual meeting online, listen to the meeting live, submit questions and vote, please visit www.virtualshareholdermeeting.com/PDCO2021.

Form 10-K

A copy of our annual report on Form 10-K is available to shareholders without charge in the investor relations section of the Patterson website (www.pattersoncompanies.com) or by writing to: John M. Wright, Vice President, Investor Relations at the corporate headquarters.

Directors

John D. Buck (C, D)
Chairman of the Board,
Chief Executive Officer
Whitefish Ventures, LLC

Mark S. Walchirk
President and
Chief Executive Officer
Patterson Companies, Inc.

Alex N. Blanco (B, C)
Former Executive Vice President
and Chief Supply Chain Officer
Ecolab Inc.

Jody H. Feragen (A, C)
Former Executive Vice President
and Chief Financial Officer
Hormel Foods Corporation

Robert C. Frenzel (A, D)
President and
Chief Operating Officer
Xcel Energy Inc.

Francis J. Malecha (A, B)
Manager of Hidden Lake
Vineyard, LLC

Ellen A. Rudnick (B, D)
Senior Advisor on Entrepreneurship
University of Chicago
Booth School of Business

Neil A. Schrimsher (B, C, D)
President and
Chief Executive Officer
Applied Industrial Technologies, Inc.

(A) Member of Audit Committee
(B) Member of Compensation Committee
(C) Member of Compliance Committee
(D) Member of Governance and Nominating Committee

Executive Officers

Mark S. Walchirk
President and
Chief Executive Officer

Donald J. Zurbay
Chief Financial Officer and Treasurer

Andrea L. Frohning
Chief Human Resources Officer

Les B. Korsh
Vice President,
General Counsel and Secretary

Kevin M. Pohlman
President, Animal Health

Tim E. Rogan
President, Dental

MIX
Paper from responsible sources
FSC® C005259
www.fsc.org

The paper for this publication is FSC® certified and meets the strict standards of the Forest Stewardship Council®, which promotes environmentally appropriate, socially beneficial and economically viable management of the world's forests.

Printed on recycled paper. Please recycle.

WE ARE PATTERSON

When we say "We are Patterson," it's our way of telling our customers, co-workers and communities that we are a trusted partner. It's a promise to live our values each day: We are Passionate. We are Focused. We are People-First. We are Always Advancing. It reminds us that no matter how the world around us may change, we are still committed to being our very best. That's why we are proud to say "We are Patterson."

PATTERSON®
COMPANIES, INC.

1031 Mendota Heights Road
St. Paul, MN 55120-1419
651.686.1600

pattersoncompanies.com