OWENS & MINOR INC/VA/
Form 10-K
March 06, 2019

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

FORM 10-K

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the year ended December 31, 2018
¨Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission File Number 1-9810

OWENS & MINOR, INC.
(Exact name of registrant as specified in its charter)

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

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

Registrant's telephone number, including area code (804) 723-7000
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $2 par value	New York Stock Exchange
3.875% Senior Notes due 2021	Not Listed
4.375% Senior Notes due 2024	Not Listed

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 x 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 x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company ¨

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

The aggregate market value of Common Stock held by non-affiliates (based upon the closing sales price) was approximately $1,041,712,963 as of June 30, 2018.

The number of shares of the Company's common stock outstanding as of February 15, 2019 was 62,235,014 shares.

Documents Incorporated by Reference

The proxy statement for the annual meeting of shareholders to be held on May 10, 2019, is incorporated by reference for Item 5 of Part II and Part III.

Form 10-K Table of Contents

Corporate Officers can be found at the end of this Form 10-K.

Part I

Item 1. Business

General

Owens & Minor, Inc. and subsidiaries (we, us or our), a Fortune 500 company headquartered in Richmond, Virginia, is a leading global healthcare solutions company with integrated technologies, products and services aligned to deliver significant and sustained value for healthcare providers and manufacturers across the continuum of care. Our teammates serve healthcare industry customers in 90 countries, by providing quality products and helping to reduce total costs across the supply chain by optimizing point-of care performance, freeing up capital and clinical resources and managing contracts to optimize financial performance. The description of our business should be read in conjunction with the consolidated financial statements and supplementary data included in this Form 10-K.

Founded in 1882, Owens & Minor was incorporated in 1926 and has operated continuously from its Richmond, Virginia headquarters. Through organic growth and acquisitions over many years, we significantly expanded and strengthened our company, achieving international scale in the healthcare market. Today, we have distribution, production, customer service and sales facilities located across Asia, Europe, Latin America and the United States.

In 2017, we acquired Byram Healthcare (Byram), a leading U.S. distributor of disposable medical supplies sold directly to patients and home health agencies. This acquisition expanded our capabilities beyond the hospital setting all the way to the patient's home with principal product lines of diabetes, ostomy, wound care, urology and incontinence supplies.

On April 30, 2018, we acquired substantially all of Avanos Medical, Inc.'s (Avanos, previously Halyard Health, Inc.) Surgical and Infection Prevention (S&IP) business, the name “Halyard Health” (and all variations of that name and related intellectual property rights) and its information technology (IT) systems in exchange for $758 million, net of cash acquired. The Halyard business is a leading global provider of medical supplies and solutions for the prevention of healthcare associated infections across acute care and non-acute care markets.

In 2018, we have made changes to the leadership team, organizational structure, budgeting and financial reporting processes which require changes to segment reporting. These changes align our operations into two distinct business units: Global Solutions and Global Products. Global Solutions (previously Domestic and International) is our U.S. and European distribution, logistics and value-added services business. Global Products (previously Proprietary Products) manufactures and sources medical surgical products through our production and kitting operations. Beginning with the quarter ended March 31, 2018, we now report financial results using this two segment structure and have recast prior year segment results on the same basis. Financial information by segment and geographic area appears in Note 20, “Segment Information,” of the Notes to Consolidated Financial Statements included in this annual report.

Global Solutions

In our Global Solutions segment, we offer a comprehensive portfolio of products and services to healthcare providers and manufacturers. Our portfolio of medical and surgical supplies includes branded products purchased in large volume from manufacturers and our own proprietary products. We store our products at our distribution centers and provide delivery of these products, along with related services, to healthcare providers around the nation.

Our service offerings to healthcare providers include supplier management, analytics, inventory management, and clinical supply management. These value-add services help providers improve their process for contracting with vendors, purchasing supplies and streamlining inventory. These services include our operating room-focused inventory management program that helps healthcare providers manage suture and endo-mechanical inventory, as well as our customizable surgical supply service that includes the kitting and delivery of surgical supplies in procedure-based totes to coincide with the healthcare providers' surgical schedule.

In addition to services to healthcare providers, we offer a variety of programs dedicated to providing logistics and marketing solutions to our suppliers as well. These are designed to help manufacturers drive sales growth, increase market share and achieve operational efficiencies. Manufacturer programs are generally negotiated on an annual basis and provide for enhanced levels of support that are aligned with the manufacturer’s annual objectives and growth goals. We have contractual arrangements with manufacturers participating in these programs that provide performance-based incentives to us, as well as cash discounts for prompt payment. Program incentives can be earned on a monthly, quarterly or annual basis.

We also provide contract logistics services to the pharmaceutical, biotechnology and medical device industries offering a broad range of supply chain logistics services to manufacturers. Our business services include order-to-cash, re-labeling, customer service and returns management. Our warehousing and transportation offerings include storage, controlled-substance handling, cold-chain, emergency and export delivery, inventory management and pick & pack services.

We operate a network of over 40 distribution centers located throughout the continental United States, which are strategically located to efficiently serve our provider and manufacturer customers. A significant investment in information technology supports our business including warehouse management systems, customer service and ordering functions, demand forecasting programs, electronic commerce, data warehousing, decision support and supply-chain management. In Europe, we have a network of 19 logistics centers serving customers in 12 European countries, including Belgium, Czech Republic, Denmark, France, Germany, Italy, Netherlands, Poland, Slovakia, Spain, Switzerland and the United Kingdom.

We customize product deliveries, whether the orders are “just-in-time,” “low-unit-of-measure,” pallets, or truckloads. We also customize delivery schedules according to customers’ needs to increase their efficiency in receiving and storing products. We have deployed low-unit-of-measure automated picking modules in our larger distribution centers to maximize efficiency, and our distribution center teammates use voice-pick technology to enhance speed and accuracy in performing certain warehousing processes. We partner with Penske Logistics to deliver most supplies in the United States. In situations where they are more cost-effective and timely, we use contract carriers and parcel delivery services.

The majority of our distribution arrangements compensate us on a cost-plus percentage basis, under which a negotiated percentage mark-up is added to the contract cost of the product agreed to by the customer and the supplier or Group Purchasing Organization (GPOs). We price our services for other arrangements under activity-based pricing models. In these cases, pricing depends upon the type, level and/or complexity of services that we provide to customers, and in some cases we do not take title to the product (although we maintain certain custodial risks). As a result, this fee-for-service pricing model aligns the fees we charge with the cost of the services provided, which is a component of distribution, selling and administrative expenses, rather than with the cost of the product, which is a component of cost of goods sold.

Through our acquisition of Byram Healthcare, we have expanded our business along the continuum of care through delivery of disposable medical supplies sold directly to patients and home health agencies. Byram specializes in various patient care product lines including ostomy, wound care, diabetes, urology, incontinence and enteral. We receive payments for products sold through Byram from managed care plans, the U.S. federal government under the Medicare program, state governments under their respective Medicaid or similar programs, private insurers and directly from patients. Byram has a nationwide sales force, focusing on managed care and key referral sources, six centers of excellence aligned with specific product categories, and a nationwide network to optimize shipping distance and time.

In 2018, our new customer solution, Fusion5, began in earnest and was created to help healthcare providers succeed in the shift from fee-for-service to value based care. A principal area where Fusion5 is currently engaged is helping providers manage bundled payment episodes under the Bundled Payments for Care Improvement, or BPCI, Advanced program. Fusion5 incurred start-up operating costs during 2018 as the venture prepares to provide services to a portfolio of customers including Integrated Delivery Networks (IDNs), physician groups and individual practitioners in 2019 and beyond.

Global Products

Our Global Products segment manufactures and sources medical surgical products through our production and kitting operations. With the acquisition of our Halyard Surgical and Infection Prevention (“Halyard”) business, we have expanded to provide medical supplies and solutions for the prevention of healthcare-associated infections across the acute and alternate site channels.

We both manufacture and source our products. Our manufacturing facilities are located in the United States, Thailand, Honduras, Mexico and Ireland. Our business has recognized brands across its portfolio of product offerings, including sterilization wrap, surgical drapes and gowns, facial protection, protective apparel, medical exam gloves, custom and minor procedure kits and other medical products.

We use a wide variety of raw materials and other inputs in our production processes, with polypropylene polymers and nitrile constituting our most significant raw material purchases. We base our purchasing decisions on quality assurance, cost effectiveness and regulatory requirements, and we work closely with our suppliers to assure continuity of supply while maintaining high quality and reliability. We primarily purchase these materials from external

suppliers, some of which are single-source suppliers. Global commodity prices can affect pricing of certain raw materials on which we rely. In our Halyard business, polypropylene polymers, which are oil based, and nitrile represent a significant component of our manufacturing costs. In addition, the prices of other raw materials we use, such as resins and finishing supplies, often fluctuate in response to changes in oil prices.

We support customer sales through a dedicated global sales force and direct our primary sales and marketing efforts toward hospitals and other healthcare providers to highlight the unique benefits and competitive differentiation of our products. We work directly with physicians, nurses, professional societies, hospital administrators and GPOs to collaborate and educate on emerging practices and clinical techniques that prevent infection and speed recovery. These marketing programs are delivered directly to healthcare providers. Additionally, we provide marketing programs to our strategic distribution partners

throughout the world. We operate five major distribution centers located in North America, Europe, Australia and Japan that ship multiple finished products to multiple customers, as well as other distribution sites that also have customer shipping capabilities, in order to optimize cost and customer service requirements.

Our proprietary products are typically purchased pursuant to purchase orders or supply agreements in which the purchaser specifies whether such products are to be supplied through a distributor or directly. This segment may sell on an intercompany basis to our Global Solutions segment when we are the designated distributor, to other third-party distributors or directly to healthcare providers.

Our Customers

We currently provide products and services to thousands of healthcare provider customers either directly or indirectly through third-party distributors. These customers include multi-facility networks of healthcare providers offering a broad spectrum of healthcare services to a particular market or markets as well as smaller, independent hospitals in the United States. In addition to contracting with healthcare providers at the IDN level and through GPOs, we also contract with other types of healthcare providers including surgery centers, physicians' practices and smaller networks of hospitals that have joined together to negotiate terms. We have contracts to provide distribution services to the members of a number of national GPOs, including Vizient, Premier, Inc. (Premier) and HealthTrust Purchasing Group (HPG). Below is a summary of these agreements:

GPO	Year of Renewal	Term	Sales to Members as a % of Consolidated Net Revenue in 2018
Vizient	2016	3 years	40%
Premier	2016	5 years	19%
HPG	2017	4 years	13%

We have our own independent relationships with most of our hospital customers through separate contractual commitments that may or may not be based upon the terms of our agreement with the GPO. As a result, the termination or expiration of an agreement with a particular GPO would not necessarily mean that we would lose the members of such GPO as our customers.

Our supplier and manufacturer customers represent the largest and most influential healthcare manufacturers in the industry. We have long-term relationships with these important companies in the healthcare supply chain and have long provided traditional distribution services to them. In the Global Solutions segment, sales of products supplied by Medtronic, Johnson & Johnson and Becton Dickinson accounted for approximately 10%, 7% and 7%, respectively of our consolidated net revenue for 2018. In addition, combined sales of products supplied by Medline Industries and Cardinal Health, both of which are also our competitors, accounted for approximately 11% of our consolidated net revenue for 2018.

In Europe, we serve a diverse customer base of approximately 500 manufacturer clients, including pharmaceutical, biotechnology and medical device manufacturers.

Asset Management

In our business, a significant investment in inventory and accounts receivable is required to meet the rapid delivery requirements of customers and provide high-quality service. As a result, efficient asset management is essential to our profitability. We continually work to refine our processes to optimize inventory and collect accounts receivable.

Inventory

We are focused in our efforts to optimize inventory and continually consolidate products and collaborate with suppliers on inventory productivity initiatives. When we convert large-scale, multi-state IDN customers to our distribution network, an additional investment in inventory in advance of expected sales is generally required. We actively monitor inventory for obsolescence and use inventory turnover and other operational metrics to measure our performance in managing inventory.

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Accounts Receivable

In the normal course of business, we provide credit to our customers and use credit management techniques to evaluate customers' creditworthiness and facilitate collection. These techniques may include performing initial and ongoing credit evaluations of customers based primarily on financial information provided by them and from sources available to the general public. We also use third-party information from sources such as credit reporting agencies, banks and other credit references. We actively manage our accounts receivable to minimize credit risk, days sales outstanding (DSO) and accounts receivable carrying costs. Our ability to accurately invoice and ship product to customers enhances our collection results and affects our DSO performance. As we diversify our customer portfolio, the change in business mix also affects our DSO. We have arrangements with certain customers under which they make deposits on account, either because they do not meet our standards for creditworthiness or in order to obtain more favorable pricing.

Competition

The industries in which we operate are highly competitive. Global Solutions competitors include two major nationwide manufacturers who also provide distribution services, Cardinal Health, Inc. and privately-held Medline Industries, Inc. In addition, we compete with a number of regional and local distributors, companies that distribute products to patient's homes and customer self-distribution models. Major logistics competitors serving healthcare manufacturers in the United States and in Europe include United Parcel Service, FedEx Corporation, Deutsche Post DHL and Alloga, as well as local competitors in specific countries.

The major competitors of our Global Products business include Cardinal Health, Inc., Medline Industries, Inc., Hogy Medical, Multigate Medical Products, Mölnlycke Health Care and HARTMANN Group. In the United States, several of our distribution partners and GPOs are also competitors or are increasingly seeking to compete with us by direct sourcing their own products. In developing and emerging markets, we compete against reusable products, or low usage of infection prevention products, due in large part to limited awareness and education on infection prevention practices and products. The highly competitive environment requires us to seek out technological innovations and to market our products effectively. Our products face competition from other brands that may be less expensive than our products and from other companies that may have more resources than we do. Competitive factors include price, alternative clinical practices, innovation, quality and reputation. To successfully compete, we must demonstrate that our products offer higher quality, more innovative features or better value versus other products.

Research and Development

We continuously engage in research and development to commercialize new products and enhance the effectiveness, reliability and safety of our existing products. In our Global Products business, we are focused on maintaining our market position by providing innovative customer-preferred product enhancements, with a particular focus on the operating room. Leveraging customer insights and our vertically integrated manufacturing capabilities, we seek to continuously improve our product designs, specifications and features to deliver cost efficiencies while improving healthcare worker and patient protection. We continuously refresh our surgical drape and gown portfolio to ensure that our products are aligned with the latest medical and procedural standards. Our research team works with healthcare providers to develop and design exam glove and apparel portfolios that optimize comfort and fit and provide cost-effective infection prevention solutions for use throughout the hospital. We are also investing in new categories and solutions that complement our technical expertise and existing intellectual property. We are particularly focused on those new categories that we believe will leverage our existing scalable technology platforms as well as our sales and marketing expertise.

Intellectual Property

Patents, trademarks and other proprietary rights are very important to the growth of our business. We also rely upon trade secrets, manufacturing know-how, continuing technological innovations and licensing opportunities to maintain and improve our competitive position.

On a regular basis, we review third-party proprietary rights, including patents and patent applications, as available, in an effort to develop an effective intellectual property strategy, avoid infringement of third-party proprietary rights, identify licensing opportunities, and monitor the intellectual property owned by others.

We have approximately 990 patents and patent applications pending in the United States and other countries that relate to the technology used in many of our products. We utilize patents in our surgical and infection protection

products and currently have over 100 issued patents in the U.S. and over 450 issued patents in countries outside the U.S. These patents generally expire between 2019 and 2035. We do not license any patents from third parties that are material to our business.

We also file patent applications for innovative product lines and solutions that result from our technical expertise. In order to protect our ongoing research & development investments, we have 65 pending patent applications in the U.S. and 325 pending patent applications in countries outside of the U.S.

With respect to trademarks, we have approximately 1,000 trademarks and trademark applications pending in the United States and other countries that are used to designate or identify our company or products. We have over 100 U.S. registration trademarks and over 700 registered trademarks outside of the U.S.. We also have 28 pending trademark applications in the U.S. and 150 trademark applications filed outside of the U.S.

Since the Halyard acquisition, we have and will continue to distribute products bearing the well-known “Halyard” brand. Other well-known registered trademarks we use include Aero Blue, Quick Check, Smart-Fold, One Step, Purple, Purple Nitrile, and Purple Nitrile-Xtra.

We consider the patents and trademarks which we own and the trademarks under which we sell certain of our products, as a whole, to be material to our business. However, we do not consider our business to be materially dependent upon any individual patent or trademark.

Regulation

The development, manufacture, marketing, sale, promotion and distribution of our products, as well as the provision of logistics and services in the healthcare industry are subject to comprehensive regulation by federal, state and local government agencies. Government regulation by various national, regional, federal, state and local agencies, globally, addresses (among other matters) inspection of, and controls over, research and laboratory procedures, clinical investigations, product approvals and manufacturing, labeling, packaging, marketing and promotion, pricing and reimbursement, sampling, distribution, quality control, post-market surveillance, record keeping, storage and disposal practices.

Our operations are impacted by trade regulations in many countries that govern the import of raw materials and finished products, as well as laws and regulations data privacy laws (including the General Data Protection Regulation) that require safeguards for the protection of healthcare and other personal data. In addition, we are subject to laws and regulations that seek to prevent corruption and bribery in the marketplace (including the U.S. Foreign Corrupt Practices Act and the United Kingdom Bribery Act, which provide guidance on corporate interactions with government officials) as well as laws and regulations pertaining to healthcare fraud and abuse, including state and federal anti-kickback and false claims laws in the United States.

We must also comply with laws and regulations, including those governing operations, storage, transportation, manufacturing, sales, safety and security standards for each of our manufacturing and distribution centers, of the Food and Drug Administration, the Centers for Medicare and Medicaid Services, the Drug Enforcement Agency, the Department of Transportation, the Environmental Protection Agency, the Department of Homeland Security, the Occupational Safety and Health Administration, and state boards of pharmacy, or similar state licensing boards and regulatory agencies.

Compliance with these laws and regulations is costly and materially affects our business. Among other effects, healthcare regulations substantially increase the time, difficulty and costs incurred in obtaining and maintaining approval to market newly developed and existing products. We believe we are in material compliance with all statutes and regulations applicable to our operations.

Our operations outside the U.S. are subject to local, country and European-wide regulations, including those promulgated by the European Medicines Agency (EMA) and the Medical Devices Directive. In addition, quality requirements are imposed by healthcare industry manufacturers and pharmaceutical companies which audit our operations on a regular basis. Each of our manufacturing locations are licensed or registered with the appropriate local authority. In addition, our logistics centers are licensed to distribute medicinal, medical and surgical supplies, as well as certain pharmaceutical and related products, according to the country-specific requirements. Our logistics centers in Europe are able to store ambient, cold-chain or deep frozen products, are licensed to distribute narcotic and other pharmaceutical products included in clinical trials and are licensed for secondary packaging activities for medicinal products. Movianto, our European logistics business, is also ISO 9001:2015 certified across the entire enterprise and ISO 13485:2003 certified at certain facilities. We believe we are in material compliance with all applicable statutes and regulations, as well as prevailing industry best practices, in the conduct of our business operations outside of the United States.

Since we market our products worldwide, certain products of a local nature and variations of product lines must also meet other local regulatory requirements. Certain additional risks are inherent in conducting business outside the United States, including price and currency exchange controls, changes in currency exchange rates, limitations on

participation in local enterprises, expropriation, nationalization, and other governmental action. Demand for many of our existing and new medical devices is, and will continue to be, affected by the extent to which government healthcare programs and private health insurers reimburse our customers for patients' medical expenses in the countries where we do business. Statutory and regulatory requirements for Medicaid, Medicare, and other government healthcare programs govern provider reimbursement levels. From time to time, legislative changes are made to government healthcare programs that impact our business, and the federal and/or state governments may continue to enact measures in the future aimed at containing or reducing reimbursement levels for medical expenses paid for in whole or in part with government funds. We cannot predict the nature of such measures or their

impact on our business, results of operations, financial condition and cash flows. Any reduction in the amount of reimbursements received by our customers could harm our business by reducing their selection of our products and the prices they are willing to pay.

Compliance with these laws and regulations is costly and materially affects our business. Among other effects, healthcare regulations substantially increase the time, difficulty and costs incurred in obtaining and maintaining approval to market newly developed and existing products. We believe we are in material compliance with all statutes and regulations applicable to our operations.

Employees

At the end of 2018, we employed approximately 6,700 full- and part-time teammates in the U.S. and 11,200 outside of the U.S. Most of our teammates outside the U.S. are covered by collective bargaining agreements. We continue to have positive relationships with teammates and works councils.

Available Information

We make our Forms 10-K, Forms 10-Q and Forms 8-K (and all amendments to these reports) available free of charge through the SEC Filings link in the Investor Relations content section on our website located at www.owens-minor.com as soon as reasonably practicable after they are filed with or furnished to the SEC. Information included on our website is not incorporated by reference into this Annual Report on Form 10-K.

You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding the company (http://www.sec.gov).

Additionally, we have adopted a written Code of Honor that applies to all of our directors, officers and teammates, including our principal executive officer and senior financial officers. This Code of Honor (including any amendments to or waivers of a provision thereof) and our Corporate Governance Guidelines are available on our website at www.owens-minor.com.

Item 1A. Risk Factors

Set forth below are certain risk factors that we currently believe could materially and adversely affect our business, financial condition and results of operations. These risk factors are in addition to those mentioned in other parts of this report and are not all of the risks that we face. We could also be affected by risks that we currently are not aware of or that we currently do not consider material to our business.

We face competition and accelerating pricing pressure.

The medical/surgical supply distribution industry in the United States is highly competitive and characterized by pricing pressure which accelerated in 2017 and continued into 2018 and put further margin pressure on our business. We expect this margin pressure to continue. We compete with other national distributors and a number of regional and local distributors, as well as customer self-distribution models and, to a lesser extent, certain third-party logistics companies. Competitive factors within the medical/surgical supply distribution industry include market pricing, total delivered product cost, product availability, the ability to fill and invoice orders accurately, delivery time, range of services provided, efficient product sourcing, inventory management, information technology, electronic commerce capabilities, and the ability to meet customer-specific requirements. Our success is dependent on the ability to compete on the above factors, while managing internal costs and expenses. These competitive pressures could have a material adverse effect on our results of operations and financial condition.

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

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

measures.

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

In 2018, our top ten customers in the United States represented approximately 23% of our consolidated net revenue. In addition, in 2018, approximately 72% of our consolidated net revenue was from sales to member hospitals under contract with our largest group purchasing organizations (GPO): Vizient, Premier and HPG. We could lose a significant healthcare provider customer or GPO relationship if an existing contract expires without being replaced or is terminated by the customer or GPO prior to its expiration. Although the termination of our relationship with a given GPO would not necessarily result in the loss of all of the member hospitals as customers, any such termination of a GPO relationship, or a significant individual healthcare provider customer relationship, could have a material adverse effect on our results of operations and financial condition.

Our operating income is dependent on certain significant domestic suppliers.

In the United States, we distribute products from nearly 1,400 suppliers and are dependent on these suppliers for the continuing supply of products. In 2018, sales of products of our ten largest domestic suppliers account