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KKR Builds Stake in Medical-Supply Company, Reaches Deal for Board Seats

Private-equity firm will have a 12% stake in Henry Schein, with option to buy more

By Miriam Gottfried Follow and Lauren Thomas Follow

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Henry Schein distributes medical and dental supplies to customers worldwide. PHOTO: BRUCE BENNETT/GETTY IMAGES

The private-equity firm KKR KKR 1.16% ▲ has taken a big stake in the medical- and dental-supply company Henry Schein HSIC 6.58% ▲ and plans to work with the company to improve its operations.

The details

KKR has amassed a large stake in the company and announced a deal Wednesday that includes increasing that stake to 12% with the option to buy up to 2.9% more in the future, confirming an earlier Wall Street Journal report. Henry Schein has agreed to give the private-equity firm two board seats.

Henry Schein, which has a market capitalization of about $9.5 billion, distributes medical and dental supplies to customers worldwide. The Melville, N.Y., company has been the subject of an activist campaign by Ananym Capital Management, which had been focused on CEO succession planning.

“This just shows that, when you apply pressure to the right place, a variety of good things become possible,” said Charlie Penner, one of Ananym’s co-founders, alongside Alex Silver.

Shares of Henry Schein haven’t moved much in recent years, while the broader market has surged. Investors have soured on the company’s acquisition and integration strategy. The stock was up in premarket trading Wednesday.

“This is a role we can play, being a long-term shareholder to a company truly under attack from activists,” said Pete Stavros, KKR’s global co-head of private-equity. He said the firm would be open to making similar investments in companies beset by activists if it has a good relationship with management and can secure formal governance rights.

KKR will also be working with Henry Schein to explore the possibility of implementing an employee-ownership model, something the private-equity firm has done across its portfolio, the companies said.

The context

Henry Schein CEO Stanley Bergman has been at the helm since 1989. A representative from KKR will join a board committee that has been working on CEO succession planning, the people said.

The deal represents a twist on a traditional corporate-defense strategy. Companies sometimes work with a friendly buyer to keep a hostile buyer at bay. Rarely, if ever, has that “white knight” role been played by a private-equity firm.

Private-equity firms typically take control of a company. For public companies, that usually means paying a significant premium over where the stock is trading to take it private. KKR was able to amass its stock position at market prices.

Doing a full buyout of a company of Henry Schein’s size would also likely require KKR to bring in one or more rival firms as a partner. These so-called club deals have an uneven record because firms often disagree over strategy.

KKR, which manages more than $620 billion in assets, has experience in the dental business. It owns the dental groups Heartland Dental and 123Dentist. Its portfolio company Internet Brands also owns a dental-software company with Henry Schein through a joint venture.

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