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**Overview:**

Throughout this document, references to “Davis Industries,” “us,” “we,” “our” and the “Company” are references to Davis Industries and its subsidiaries, except where the context makes it clear the reference is to Davis Industries Medical Corp. itself and not its subsidiaries. Unless otherwise indicated, references in this Form 10-K to 2018, 2017, 2016 or “fiscal” 2018, 2017, 2016 or other years refer to our fiscal year ended July 31, of that respective year, and references to “fiscal” 2019 refer to our fiscal year ending July 31, 2019.

We are a leading provider of medical equipment and sanitation products and services in the healthcare market, specializing in the following reportable segments: Surgical Instruments, Medical Sterilization, and Single-Use Medical Disposables. We operate our three operating segments through wholly-owned subsidiaries in the United States and internationally.

**Information Related to Reportable Segments:**

**Surgical Instruments**

Our surgical instruments segment designs, develops, manufactures, sells and services a comprehensive offering of products for surgical use. Our products include cutting and dissecting instruments, grasping or holding instruments, retractors, and homeostatic instruments.

Our surgical instruments, most of which are proprietary medical devices subject to rigorous standards and regulations, contribute to the safe and effective use in healthcare facilities throughout the world and improve the quality of healthcare delivery. In addition, our disposable procedure products provide greater patient safety and infection prevention, through the replacement of reusable devices requiring disinfection with our single-use medical disposable products.

**Medical Sterilizers**

Our Medical Sterilizers segment designs, develops, manufactures, sells, and installs sterilization systems for medical and pharmaceutical instruments and areas. We also provide disinfectant technologies to the medical and life science markets through a worldwide distributor network.

Our liquid disinfectant and cold sterilant products are used in the dialysis, medical, pharmaceutical and other industries. These products include surface disinfectants as well as chemistries used to disinfect medical instruments and surfaces as part of overall procedures to control the contamination of systems and limit infections and spread of disease.

**Single-Use Medical Disposables**

We design, manufacture, sell, supply and distribute a broad selection of single-use infection prevention healthcare products, the majority of which are single-use products used by medical practitioners. Our products include the following:

* Hypodermic needles and syringes
* Applicators
* Bandages and wraps
* PP&E: Exam gowns, face masks and gloves
* Suction catheters
* Surgical sponges

**Principal Customers:**

None of our customers accounted for 10% or more of our consolidated net sales during fiscal 2017, 2016 or 2015. As described below, none of our segments are reliant upon a single customer, but some of our segments are currently reliant on a few customers. See Item 1A, “Risk Factors.”

Our Surgical Instruments segment is reliant on two customers, who collectively accounted for approximately 37.2% of our segment net sales during fiscal 2017.

Our Single-Use Medical Disposables segment is reliant on three customers, who collectively accounted for approximately 32.8% of our segment net sales during fiscal 2017.

Our Medical Sterilizers segment is reliant on two customers (which are the same two customers noted above under our Surgical Instruments segment), who collectively accounted for approximately 49.3% of our segment net sales during fiscal 2017.

**Competition:**

The markets in which our business is conducted are highly competitive. Competition is intense in all of our business segments and includes many large and small competitors. Factors to consider that can differentiate us from our competitors are price, product support, differentiation and breadth of products and ease of use. Competitors include Delta Corp, Omega Inc, Kappa GmbH, and Beta SpA.

**Consolidated financial statements**

*(amounts in thousands)*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Balance Sheet** | **July 31,** | | | | |
|  | **2017** |  | **2016** |  | **2015** |
| **Assets** |  |  |  |  |  |
| Cash and cash equivalents | 32,479 |  | 26,750 |  | 19,825 |
| Accounts receivable | 69,078 |  | 58,384 |  | 43,536 |
| Inventories | 61,795 |  | 57,332 |  | 45,078 |
| Prepaid expenses and other current assets | 7,129 |  | 5,973 |  | 9,224 |
| Total current assets | 170,482 |  | 148,439 |  | 117,663 |
|  |  |  |  |  |  |
| Property and equipment, net | 55,211 |  | 46,628 |  | 39,088 |
| Intangible assets | 77,820 |  | 69,824 |  | 53,648 |
| Goodwill | 194,653 |  | 175,199 |  | 151,219 |
| Other assets | 2,942 |  | 3,218 |  | 3,339 |
| **Total assets** | **501,108** |  | **443,308** |  | **364,957** |
|  |  |  |  |  |  |
| **Liabilities and stockholders’ equity** |  |  |  |  |  |
| Accounts payable | 17,172 |  | 16,448 |  | 10,116 |
| Other current liabilities | 49,569 |  | 43,795 |  | 34,025 |
| Total current liabilities | 66,741 |  | 60,243 |  | 44,141 |
|  |  |  |  |  |  |
| Total debt | 126,000 |  | 116,000 |  | 78,500 |
| Other long-term liabilities | 18,539 |  | 17,392 |  | 17,671 |
| Total liabilities | 211,280 |  | 193,635 |  | 140,312 |
|  |  |  |  |  |  |
| Total stockholders’ equity | 289,828 |  | 249,673 |  | 224,644 |
| **Total liabilities and stockholders’ equity** | **501,108** |  | **443,308** |  | **364,957** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Income Statement** | **July 31,** | | | | |
|  | **2017** |  | **2016** |  | **2015** |
|  |  |  |  |  |  |
| Revenue | 480,258 |  | 415,808 |  | 353,128 |
|  |  |  |  |  |  |
| Cost of goods sold | 242,530 |  | 215,180 |  | 188,040 |
| Gross profit | 237,728 |  | 200,628 |  | 165,088 |
|  |  |  |  |  |  |
| Total operating expenses | 172,899 |  | 142,613 |  | 116,287 |
|  |  |  |  |  |  |
| Operating income | 64,829 |  | 58,015 |  | 48,801 |
|  |  |  |  |  |  |
| Interest expense | 4,303 |  | 3,320 |  | 2,364 |
| Other expenses / (income) | (126) |  |  |  | 2,206 |
| Earnings before taxes | 60,652 |  | 54,695 |  | 44,231 |
|  |  |  |  |  |  |
| Income taxes | 19,900 |  | 19,785 |  | 16,393 |
| Net income | 40,752 |  | 34,910 |  | 27,838 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Cash Flow Statement** | **July 31,** | | | | |
|  | **2017** |  | **2016** |  | **2015** |
| **Cash flows from operating activities** |  |  |  |  |  |
| Net income | 40,752 |  | 34,910 |  | 27,838 |
| Adjustments to reconcile net income to net cash: |  |  |  |  |  |
| Depreciation | 9,382 |  | 7,499 |  | 6,683 |
| Amortization | 12,006 |  | 8,316 |  | 7,945 |
| Stock-based compensation expense | 4,803 |  | 5,198 |  | 3,531 |
| Amortization of debt issuance costs | 401 |  | 401 |  | 401 |
| Loss on disposal of fixed assets | 966 |  | 553 |  | 360 |
| Loss on sale of business | - |  | - |  | 2,206 |
| Impairment of assets | - |  | - |  | 1,287 |
| Changes in assets and liabilities: |  |  |  |  |  |
| Accounts receivable | (10,694) |  | (14,848) |  | (12,555) |
| Inventories | (4,463) |  | (12,254) |  | (8,734) |
| Prepaid expenses and other current assets | (1,156) |  | 3,251 |  | (2,996) |
| Accounts payable | 724 |  | 6,332 |  | 5,004 |
| Other assets and liabilities | 7,197 |  | 9,612 |  | 8,110 |
| Net cash provided by operating activities | 59,918 |  | 48,970 |  | 39,080 |
|  |  |  |  |  |  |
| **Cash flows from investing activities** |  |  |  |  |  |
| Capital expenditures | (16,809) |  | (11,438) |  | (7,945) |
| Acquisition of businesses, net of cash acquired | (43,778) |  | (64,988) |  | (20,422) |
| Net cash used in investing activities | (60,587) |  | (76,426) |  | (28,367) |
|  |  |  |  |  |  |
| **Cash flows from financing activities** |  |  |  |  |  |
| Debt Borrowings | 74,000 |  | 96,500 |  | 47,000 |
| Debt Repayments | (64,000) |  | (59,000) |  | (49,000) |
| Dividends paid | (3,602) |  | (3,119) |  | (2,649) |
| Net cash (used in) provided by financing activities | 6,398 |  | 34,381 |  | (4,649) |
|  |  |  |  |  |  |
| Increase (decrease) in cash and cash equivalents | 5,729 |  | 6,925 |  | 6,064 |
| Cash and cash equivalents at beginning of period | 26,750 |  | 19,825 |  | 13,761 |
| Cash and cash equivalents at end of period | 32,479 |  | 26,750 |  | 19,825 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Non-GAAP measures** | **July 31,** | | | | |
|  | **2017** |  | **2016** |  | **2015** |
| **Adjusted EBITDA** | 99,779 |  | 86,280 |  | 70,185 |