

MOHAWK INDUSTRIES INC
Form 10-Q
May 04, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[Mark One]

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

For the quarterly period ended March 31, 2018

OR

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

For the transition period from _____ to _____

Commission File Number 01-13697

MOHAWK INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

| | |
|--|--------------------------------------|
| Delaware | 52-1604305 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

160 S. Industrial Blvd., Calhoun, Georgia 30701
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (706) 629-7721

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "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 (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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The number of shares outstanding of the issuer's common stock as of May 2, 2018, the latest practicable date, is as follows: 74,598,687 shares of common stock, \$.01 par value.

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PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

(Unaudited)

| | March 31, 2018 | December 31, 2017 |
|--|-------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 114,843 | 84,884 |
| Receivables, net | 1,689,912 | 1,558,159 |
| Inventories | 2,044,962 | 1,948,663 |
| Prepaid expenses | 379,111 | 376,836 |
| Other current assets | 68,211 | 104,425 |
| Total current assets | 4,297,039 | 4,072,967 |
| Property, plant and equipment | 7,807,851 | 7,486,284 |
| Less: accumulated depreciation | 3,347,058 | 3,215,494 |
| Property, plant and equipment, net | 4,460,793 | 4,270,790 |
| Goodwill | 2,512,615 | 2,471,459 |
| Tradenames | 654,349 | 644,208 |
| Other intangible assets subject to amortization, net | 245,640 | 247,559 |
| Deferred income taxes and other non-current assets | 389,936 | 387,870 |
| | \$ 12,560,372 | 12,094,853 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Short-term debt and current portion of long-term debt | \$ 1,331,917 | 1,203,683 |
| Accounts payable and accrued expenses | 1,463,993 | 1,451,672 |
| Total current liabilities | 2,795,910 | 2,655,355 |
| Deferred income taxes | 339,656 | 328,103 |
| Long-term debt, less current portion | 1,585,651 | 1,559,895 |
| Other long-term liabilities | 462,222 | 455,028 |
| Total liabilities | 5,183,439 | 4,998,381 |
| Commitments and contingencies (Note 15) | | |
| Redeemable noncontrolling interest | 30,924 | 29,463 |
| Stockholders' equity: | | |
| Preferred stock, \$.01 par value; 60 shares authorized; no shares issued | — | — |
| Common stock, \$.01 par value; 150,000 shares authorized; 81,883 and 81,771 shares issued in 2018 and 2017, respectively | 819 | 818 |
| Additional paid-in capital | 1,827,075 | 1,828,131 |
| Retained earnings | 6,212,966 | 6,004,506 |
| Accumulated other comprehensive loss | (487,168) | (558,527) |
| | 7,553,692 | 7,274,928 |
| Less treasury stock at cost; 7,350 shares in 2018 and 2017 | 215,749 | 215,766 |
| Total Mohawk Industries, Inc. stockholders' equity | 7,337,943 | 7,059,162 |
| Nonredeemable noncontrolling interest | 8,066 | 7,847 |
| Total stockholders' equity | 7,346,009 | 7,067,009 |

\$12,560,372 12,094,853

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

| | Three Months Ended | |
|--|--------------------|-----------|
| | March 31, | April 1, |
| | 2018 | 2017 |
| Net sales | \$2,412,202 | 2,220,645 |
| Cost of sales | 1,707,510 | 1,540,292 |
| Gross profit | 704,692 | 680,353 |
| Selling, general and administrative expenses | 436,293 | 405,569 |
| Operating income | 268,399 | 274,784 |
| Interest expense | 7,528 | 8,202 |
| Other expense (income), net | 3,998 | (2,832) |
| Earnings before income taxes | 256,873 | 269,414 |
| Income tax expense | 47,632 | 68,358 |
| Net earnings including noncontrolling interests | 209,241 | 201,056 |
| Net income attributable to noncontrolling interests | 475 | 502 |
| Net earnings attributable to Mohawk Industries, Inc. | \$208,766 | 200,554 |
| Basic earnings per share attributable to Mohawk Industries, Inc. | | |
| Basic earnings per share attributable to Mohawk Industries, Inc. | \$2.80 | 2.70 |
| Weighted-average common shares outstanding—basic | 74,453 | 74,212 |
| Diluted earnings per share attributable to Mohawk Industries, Inc. | | |
| Diluted earnings per share attributable to Mohawk Industries, Inc. | \$2.78 | 2.68 |
| Weighted-average common shares outstanding—diluted | 74,929 | 74,754 |
| See accompanying notes to condensed consolidated financial statements. | | |

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MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (In thousands)
 (Unaudited)

| | Three Months Ended | |
|--|--------------------|---------------|
| | March 31, 2018 | April 1, 2017 |
| Net earnings including noncontrolling interests | \$209,241 | 201,056 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustments | 72,393 | 83,623 |
| Pension prior service cost and actuarial gain (loss), net of tax | (135) | (582) |
| Other comprehensive income | 72,258 | 83,041 |
| Comprehensive income | 281,499 | 284,097 |
| Comprehensive income attributable to noncontrolling interests | 1,374 | 502 |
| Comprehensive income attributable to Mohawk Industries, Inc. | \$280,125 | 283,595 |
| See accompanying notes to condensed consolidated financial statements. | | |

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

| | Three Months Ended | |
|---|--------------------|---------------|
| | March 31, 2018 | April 1, 2017 |
| Cash flows from operating activities: | | |
| Net earnings | \$ 209,241 | 201,056 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Restructuring | 18,182 | 3,025 |
| Depreciation and amortization | 122,654 | 105,024 |
| Deferred income taxes | 19,401 | 20,194 |
| Loss (gain) on disposal of property, plant and equipment | (1,277) | 547 |
| Stock-based compensation expense | 7,948 | 9,467 |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | |
| Receivables, net | (104,287) | (109,761) |
| Inventories | (74,499) | (51,466) |
| Other assets and prepaid expenses | (182) | (3,005) |
| Accounts payable and accrued expenses | (14,250) | (12,188) |
| Other liabilities | 297 | 2,989 |
| Net cash provided by operating activities | 183,228 | 165,882 |
| Cash flows from investing activities: | | |
| Additions to property, plant and equipment | (250,936) | (201,270) |
| Acquisitions, net of cash acquired | (24,410) | (827) |
| Purchases of short-term investments | (246,096) | — |
| Redemption of short-term investments | 280,000 | — |
| Net cash used in investing activities | (241,442) | (202,097) |
| Cash flows from financing activities: | | |
| Payments on Senior Credit Facilities | (365,889) | (185,722) |
| Proceeds from Senior Credit Facilities | 355,252 | 157,957 |
| Payments on Commercial Paper | (3,976,712) | (3,155,448) |
| Proceeds from Commercial Paper | 4,089,996 | 3,788,003 |
| Payments on asset securitization borrowings | — | (500,000) |
| Debt issuance costs | — | (522) |
| Change in outstanding checks in excess of cash | (6,905) | (1,158) |
| Shares redeemed for taxes | (9,144) | (12,255) |
| Proceeds and net tax benefit from stock transactions | 1 | 13 |
| Net cash used in financing activities | 86,599 | 90,868 |
| Effect of exchange rate changes on cash and cash equivalents | 1,574 | 12,118 |
| Net change in cash and cash equivalents | 29,959 | 66,771 |
| Cash and cash equivalents, beginning of period | 84,884 | 121,665 |
| Cash and cash equivalents, end of period | \$ 114,843 | 188,436 |

See accompanying notes to condensed consolidated financial statements.

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MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

1. General

Interim Reporting

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with instructions to Form 10-Q and do not include all of the information and footnotes required by U.S. generally accepted accounting principles ("U.S. GAAP") for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These statements should be read in conjunction with the consolidated financial statements and notes thereto, and the Company's description of critical accounting policies, included in the Company's 2017 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission. Results for interim periods are not necessarily indicative of the results for the year.

Hedges of Net Investments in Non-U.S. Operations

The Company has numerous investments outside the United States. The net assets of these subsidiaries are exposed to changes and volatility in currency exchange rates. The Company uses foreign currency denominated debt to hedge some of its non-U.S. net investments against adverse movements in exchange rates. The gains and losses on the Company's net investments in its non-U.S. operations are partially economically offset by gains and losses on its foreign currency borrowings. The Company designated its €500,000 2.00% Senior Notes borrowing as a net investment hedge against a portion of its European operations. For the three months ended March 31, 2018 and April 1, 2017, the change in the U.S. dollar value of the Company's euro denominated debt was an increase of \$16,047 (\$13,043 net of taxes) and \$6,781 (\$4,238 net of taxes), respectively, which is recorded in the foreign currency translation adjustment component of other comprehensive income (loss). The increase in the U.S. dollar value of the Company's debt partially offsets the euro-to-dollar translation of the Company's net investment in its European operations.

Recent Accounting Pronouncements - Recently Adopted

On January 1, 2018, the Company adopted the new accounting standard, ASC 606, Revenue from Contracts with Customers and all the related amendments ("ASC 606") and applied the provisions of the standard to all contracts using the modified retrospective method. The cumulative effect of adopting the new revenue standard was immaterial and no adjustment has been recorded to the opening balance of retained earnings. Prior year information has not been restated and continues to be reported under the accounting standards in effect for those periods.

Substantially all of the Company's revenue continues to be recognized at a point in time when the product is either shipped or received from the Company's facilities and control of the product is transferred to the customer. The Company reviewed all of its revenue product categories under ASC 606 and the only changes identified were that an immaterial amount of revenue from intellectual property ("IP") contracts result in earlier recognition of revenue, new controls and processes designed to meet the requirements of the standard were implemented, and the required new disclosures are presented in Note 3, Revenue from Contracts with Customers. The adoption of ASC 606 did not have a material impact on the amounts reported in the Company's consolidated financial position, results of operations or cash flows.

On January 1, 2018, the Company adopted the new accounting standard, ASU 2016-15, Statement of Cash Flows (Topic 230). The effect of adopting the new standard was not material.

On January 1, 2018, the Company adopted the new accounting standard, ASU 2017-01, Business Combinations (Topic 805): Clarifying the definition of a business. The effect of adopting the new standard was not material.

Recent Accounting Pronouncements - Effective in Future Years

In February 2016, the FASB issued ASU 2016-02, Leases. The amendments in this Update create Topic 842, Leases, and supersede the requirements in Topic 840, Leases. Topic 842 specifies the accounting for leases. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. The guidance in this update is effective for annual reporting periods beginning after December 15, 2018 including interim periods within that reporting period and early adoption is permitted.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company plans to adopt the provisions of this update at the beginning of fiscal year 2019. Based on a preliminary assessment, the Company expects the adoption of this guidance to have a material impact on its assets and liabilities due to the recognition of right-of-use assets and lease liabilities on its consolidated balance sheets at the beginning of the earliest period presented. The Company is continuing its assessment, including identification of new controls and processes designed to meet the requirements of the topic and required new disclosures upon adoption, and may identify additional impacts this guidance will have on its consolidated financial statements and disclosures.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and other (Topic 350): Simplifying the test for goodwill impairment. The amendments remove the second step of the current goodwill impairment test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. This guidance is effective for impairment tests in fiscal years beginning after December 15, 2019.

2. Acquisitions

2018 Acquisitions

On November 20, 2017, the Company announced that it agreed to acquire Godfrey Hirst Group, the leading flooring company in Australia and New Zealand, further extending Mohawk's global position. The acquisition is expected to close during the second quarter of 2018 for approximately A\$556,000 (\$427,134 equivalent at March 31, 2018).

During the first quarter of 2018, the Company completed the acquisition of three businesses in the Flooring ROW segment for \$24,410, resulting in a preliminary goodwill allocation of \$12,548 and intangibles subject to amortization of \$7.

2017 Acquisitions

On April 4, 2017, the Company completed its purchase of Emilceramica S.r.l ("Emil"), a ceramic company in Italy. The total value of the acquisition was \$186,099. The Emil acquisition will enhance the Company's cost position and strengthen its combined brand and distribution in Europe. The acquisition's results and purchase price allocation have been included in the consolidated financial statements since the date of the acquisition. The Company's acquisition of Emil resulted in a goodwill allocation of \$59,491, indefinite-lived tradename intangible asset of \$16,196 and an intangible asset subject to amortization of \$2,348. The goodwill is not expected to be deductible for tax purposes. The factors contributing to the recognition of the amount of goodwill include product, sales and manufacturing synergies. The Emil results are reflected in the Global Ceramic segment and the results of Emil's operations are not material to the Company's consolidated results of operations.

During the second quarter of 2017, the Company completed the acquisition of two businesses in the Global Ceramic segment for \$37,250, resulting in a goodwill allocation of \$1,002. The Company also completed the acquisition of a business in the Flooring NA segment for \$26,623.

During the first quarter of 2017, the Company acquired certain assets of a distribution business in the Flooring ROW segment for \$1,407, resulting in intangible assets subject to amortization of \$827.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Revenue from Contracts with Customers

Revenue recognition and accounts receivable

The Company recognizes revenues when it satisfies performance obligations as evidenced by the transfer of control of promised goods to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods. The nature of the promised goods are ceramic, stone, carpet, resilient, laminate, wood and other flooring products. Payment is typically 90 days or less from the invoice date. The Company adjusts the amounts of revenue for expected cash discounts, sales allowances, returns, and claims, based upon historical experience. The Company adjusts accounts receivable for doubtful account allowances based upon historical bad debt, claims experience, periodic evaluation of specific customer accounts, and the aging of accounts receivable. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Contract liabilities

The Company historically records contract liabilities when it receives payment prior to fulfilling a performance obligation. Contract liabilities related to revenues are recorded in accounts payable and accrued expenses on the accompanying condensed consolidating balance sheets. The Company had contract liabilities of \$35,958 and \$29,124 as of March 31, 2018 and December 31, 2017, respectively.

Performance obligations

Substantially all of the Company's revenue is recognized at a point-in-time when the product is either shipped or received from the Company's facilities and control of the product is transferred to the customer. Accordingly, in any period, the Company does not recognize a significant amount of revenue from performance obligations satisfied or partially satisfied in prior periods and the amount of such revenue recognized during the three months ended March 31, 2018 was immaterial.

Costs to obtain a contract

The Company historically incurs certain incremental costs to obtain revenue contracts. These costs relate to marketing display structures and are capitalized when the amortization period is greater than one year, with the amount recorded in other assets on the accompanying condensed consolidated balance sheets. Capitalized costs to obtain contracts were \$46,224 and \$43,259 as of March 31, 2018 and December 31, 2017, respectively. Amortization expense recognized during the three months ended March 31, 2018 related to these capitalized costs was \$14,714.

Practical expedients and policy elections

The Company elected the following practical expedients and policy elections:

• Incremental costs of obtaining a contract is recorded as an expense when incurred in selling, general and administrative expenses if the amortization period is less than one year.

• Shipping and handling activities performed after control has been transferred is accounted for as a fulfillment cost in cost of sales.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Revenue disaggregation

The following table presents the Company's segment revenues disaggregated by the geographical location of customer sales and product categories for the three months ended March 31, 2018 and April 1, 2017:

| March 31, 2018 | Global Ceramic segment | Flooring NA segment | Flooring ROW segment | Total |
|-----------------------------|------------------------------|---------------------------|----------------------------|-----------|
| Geographical Markets | | | | |
| United States | \$556,187 | 908,122 | — | 1,464,309 |
| Europe | 190,235 | 1,650 | 494,644 | 686,529 |
| Russia | 51,422 | — | 19,428 | 70,850 |
| Other | 78,704 | 40,586 | 71,224 | 190,514 |
| | \$876,548 | 950,358 | 585,296 | 2,412,202 |

| Product Categories | Global Ceramic & Stone | Flooring Carpet & Resilient | Flooring Laminate & Wood | Total |
|----------------------|---------------------------|--------------------------------|-----------------------------|-----------|
| Ceramic & Stone | \$876,548 | 17,544 | — | 894,092 |
| Carpet & Resilient | — | 755,545 | 129,011 | 884,556 |
| Laminate & Wood | — | 177,269 | 226,143 | 403,412 |
| Other ⁽¹⁾ | — | — | 230,142 | 230,142 |
| | \$876,548 | 950,358 | 585,296 | 2,412,202 |

| April 1, 2017 | Global Ceramic segment | Flooring NA segment | Flooring ROW segment | Total |
|-----------------------------|------------------------------|---------------------------|----------------------------|-----------|
| Geographical Markets | | | | |
| United States | \$545,016 | 892,605 | 703 | 1,438,324 |
| Europe | 131,621 | 4,035 | 412,195 | 547,851 |
| Russia | 44,258 | — | 18,138 | 62,396 |
| Other | 64,074 | 42,856 | 65,144 | 172,074 |
| | \$784,969 | 939,496 | 496,180 | 2,220,645 |

| Product Categories | Global Ceramic & Stone | Flooring Carpet & Resilient | Flooring Laminate & Wood | Total |
|----------------------|---------------------------|--------------------------------|-----------------------------|-----------|
| Ceramic & Stone | \$784,969 | 21,347 | — | 806,316 |
| Carpet & Resilient | — | 733,254 | 100,124 | 833,378 |
| Laminate & Wood | — | 184,895 | 191,921 | 376,816 |
| Other ⁽¹⁾ | — | — | 204,135 | 204,135 |
| | \$784,969 | 939,496 | 496,180 | 2,220,645 |

⁽¹⁾ Other includes roofing elements, insulation boards, chipboards and IP contracts.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Restructuring, acquisition and integration-related costs

The Company incurs costs in connection with acquiring, integrating and restructuring acquisitions and in connection with its global cost-reduction/productivity initiatives. For example:

In connection with acquisition activity, the Company typically incurs costs associated with executing the transactions, integrating the acquired operations (which may include expenditures for consulting and the integration of systems and processes), and restructuring the combined company (which may include charges related to employees, assets and activities that will not continue in the combined company); and

In connection with the Company's cost-reduction/productivity initiatives, it typically incurs costs and charges associated with site closings and other facility rationalization actions and workforce reductions.

Restructuring, acquisition transaction and integration-related costs consisted of the following during the three months ended March 31, 2018 and April 1, 2017:

| | Three Months Ended March 31, April 1, 2018 2017 | |
|--|--|-------|
| Cost of sales | | |
| Restructuring costs ^(a) | \$ 14,090 | 2,898 |
| Acquisition integration-related costs | 408 | (86) |
| Restructuring and integration-related costs | \$ 14,498 | 2,812 |
| Selling, general and administrative expenses | | |
| Restructuring costs ^(a) | \$ 4,092 | 127 |
| Acquisition integration-related costs | 3,514 | 1,039 |
| Restructuring, acquisition and integration-related costs | \$ 7,606 | 1,166 |

(a) The restructuring costs for 2018 and 2017 primarily relate to the Company's actions taken to lower its cost structure and improve efficiencies of manufacturing and distribution operations as well as actions related to the Company's recent acquisitions.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The restructuring activity for the three months ended March 31, 2018 is as follows:

| | Lease impairments | Asset write-downs | Severance | Other restructuring costs and currency translation | Total |
|------------------------------------|----------------------|----------------------|-----------|--|----------|
| Balance as of December 31, 2017 | \$ 359 | — | 584 | 152 | 1,095 |
| Provision - Global Ceramic segment | — | — | 2,882 | (117) | 2,765 |
| Provision - Flooring NA segment | 236 | 572 | 4,815 | 9,703 | 15,326 |
| Provision - Flooring ROW segment | — | — | 91 | — | 91 |
| Cash payments | (182) | — | (3,408) | (9,708) | (13,298) |
| Non-cash items | — | (572) | 8 | 93 | (471) |
| Balance as of March 31, 2018 | \$ 413 | — | 4,972 | 123 | 5,508 |

The Company expects the remaining severance and other restructuring costs to be paid over the next year.

5. Receivables, net

Receivables, net are as follows:

| | March 31, 2018 | December 31, 2017 |
|--|-------------------|----------------------|
| Customers, trade | \$1,674,518 | 1,538,348 |
| Income tax receivable | 9,400 | 9,835 |
| Other | 96,871 | 96,079 |
| | 1,780,789 | 1,644,262 |
| Less: allowance for discounts, returns, claims and doubtful accounts | 90,877 | 86,103 |
| Receivables, net | \$1,689,912 | 1,558,159 |

6. Inventories

The components of inventories are as follows:

| | March 31, 2018 | December 31, 2017 |
|-------------------|-------------------|----------------------|
| Finished goods | \$1,403,472 | 1,326,038 |
| Work in process | 167,717 | 159,921 |
| Raw materials | 473,773 | 462,704 |
| Total inventories | \$2,044,962 | 1,948,663 |

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Goodwill and intangible assets

The components of goodwill and other intangible assets are as follows:

Goodwill:

| | Global Ceramic segment | Flooring NA segment | Flooring ROW segment | Total |
|--|------------------------------|---------------------------|----------------------------|-------------|
| Balance as of December 31, 2017 | | | | |
| Goodwill | \$ 1,567,872 | 869,764 | 1,361,248 | 3,798,884 |
| Accumulated impairment losses | (531,930) | (343,054) | (452,441) | (1,327,425) |
| | \$ 1,035,942 | 526,710 | 908,807 | 2,471,459 |
| Goodwill recognized during the period | \$— | — | 12,548 | 12,548 |
| Currency translation during the period | \$ 5,100 | — | 23,508 | 28,608 |
| Balance as of March 31, 2018 | | | | |
| Goodwill | \$ 1,572,972 | 869,764 | 1,397,304 | 3,840,040 |
| Accumulated impairment losses | (531,930) | (343,054) | (452,441) | (1,327,425) |
| | \$ 1,041,042 | 526,710 | 944,863 | 2,512,615 |

Intangible assets not subject to amortization:

| | Tradenames |
|--|------------|
| Balance as of December 31, 2017 | \$ 644,208 |
| Intangible assets acquired during the period | — |
| Currency translation during the period | 10,141 |
| Balance as of March 31, 2018 | \$ 654,349 |

Intangible assets subject to amortization:

| Gross carrying amounts: | Customer relationships | Patents | Other | Total |
|--|---------------------------|---------|-------|---------|
| Balance as of December 31, 2017 | \$ 625,263 | 266,969 | 6,825 | 899,057 |
| Intangible assets recognized during the period | — | — | 7 | 7 |
| Currency translation during the period | 11,865 | 7,082 | 179 | 19,126 |
| Balance as of March 31, 2018 | \$ 637,128 | 274,051 | 7,011 | 918,190 |
| Accumulated amortization: | Customer relationships | Patents | Other | Total |
| Balance as of December 31, 2017 | \$ 390,428 | 259,908 | 1,162 | 651,498 |
| Amortization during the period | 6,975 | 583 | 9 | 7,567 |
| Currency translation during the period | 6,577 | 6,898 | 10 | 13,485 |
| Balance as of March 31, 2018 | \$ 403,980 | 267,389 | 1,181 | 672,550 |
| Intangible assets subject to amortization, net | \$ 233,148 | 6,662 | 5,830 | 245,640 |

Three Months
Ended
March 31, April 1,
2018 2017

Amortization expense \$7,567 10,059

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Accounts payable and accrued expenses

Accounts payable and accrued expenses are as follows:

| | March 31, 2018 | December 31, 2017 |
|---|-------------------|----------------------|
| Outstanding checks in excess of cash | \$ 1,974 | 8,879 |
| Accounts payable, trade | 897,525 | 810,034 |
| Accrued expenses | 334,879 | 363,919 |
| Product warranties | 40,456 | 39,035 |
| Accrued interest | 8,155 | 22,363 |
| Accrued compensation and benefits | 181,004 | 207,442 |
| Total accounts payable and accrued expenses | \$ 1,463,993 | 1,451,672 |

9. Accumulated other comprehensive income (loss)

The changes in accumulated other comprehensive income (loss) by component, for the three months ended March 31, 2018 are as follows:

| | Foreign currency translation adjustments | Pensions, net of tax | Total |
|---|---|-------------------------|-----------|
| Balance as of December 31, 2017 | \$ (547,927) | (10,600) | (558,527) |
| Current period other comprehensive income | 71,494 | (135) | 71,359 |
| Balance as of March 31, 2018 | \$ (476,433) | (10,735) | (487,168) |

10. Stock-based compensation

The Company recognizes compensation expense for all share-based payments granted based on the grant-date fair value estimated in accordance with the provisions of the FASB ASC 718-10. Compensation expense is recognized on a straight-line basis over the options' or other awards' estimated lives for fixed awards with ratable vesting provisions.

The Company granted 123 restricted stock units ("RSUs") at a weighted average grant-date fair value of \$239.04 per unit for the three months ended March 31, 2018. The Company granted 153 RSUs at a weighted average grant-date fair value of \$226.85 per unit for the three months ended April 1, 2017. The Company recognized stock-based compensation costs related to the issuance of RSUs of \$7,948 (\$5,882 net of taxes) and \$9,465 (\$5,743 net of taxes) for the three months ended March 31, 2018 and April 1, 2017, respectively, which has been allocated to cost of sales and selling, general and administrative expenses. Pre-tax unrecognized compensation expense for unvested RSUs granted to employees, net of estimated forfeitures, was \$45,146 as of March 31, 2018, and will be recognized as expense over a weighted-average period of approximately 1.51 years. The Company also recognized stock-based compensation costs related to stock options of \$2 (\$1 net of taxes) for the three months ended April 1, 2017 which was allocated to cost of sales and selling, general and administrative expenses.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Other expense (income), net

Other expense (income), net is as follows:

| | Three Months Ended | |
|--------------------------------------|-----------------------|------------------|
| | March 31, 2018 | April 1, 2017 |
| Foreign currency losses (gains), net | \$1,405 | (2,323) |
| Release of indemnification asset | 1,749 | — |
| All other, net | 844 | (509) |
| Total other expense (income), net | \$3,998 | (2,832) |

12. Income Taxes

For the quarter ended March 31, 2018, the Company recorded income tax expense of \$47,632 on earnings before income taxes of \$256,873 for an effective tax rate of 18.5%, as compared to an income tax expense of \$68,358 on earnings before income taxes of \$269,414, for an effective tax rate of 25.4% for the quarter ended April 1, 2017. The effective tax rate for the quarter was favorably impacted by the net tax benefit of tax reforms in Belgium, which reduced the statutory rate from 33.99% to 29.58%, and the U.S. Tax Cuts and Jobs Act ("TCJA"), which was signed into law on December 22, 2017 and reduced the statutory rate from 35% to 21%.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provided guidance on accounting for the income tax effects of the TCJA. SAB 118 provides a measurement period that should not extend beyond one year from the enactment date of the TCJA for companies to complete the accounting under ASC 740, Income Taxes ("ASC 740"). In accordance with SAB 118, a company must (1) reflect the income tax effects of those aspects of TCJA for which the accounting under ASC 740 is complete, (2) record a provisional estimate for those aspects of TCJA for which the accounting is incomplete but a reasonable estimate can be made, and/or (3) continue to apply ASC 740 on the basis of the provisions of tax laws in effect immediately before the enactment of the TCJA if no reasonable estimate can be made. The Company has not completed its accounting for the income tax effects of the TCJA but this will be completed within the one-year time period permitted by SAB 118.

As disclosed in the December 31, 2017 10-K, the Company was able to make reasonable estimates and recorded a provisional amount in 2017 for the reduction of the U.S. corporate tax rate from 35% to 21% effective January 1, 2018. This estimate may be affected in future periods by other analysis to the TCJA, including, but not limited to, calculations of deemed repatriation of deferred foreign income and the state tax effect, expenditures that qualify for immediate expensing, and amounts limited for payments to covered employees. The Company has made no changes to its provisional estimates during the quarter ended March 31, 2018.

The Deemed Repatriation Transition Tax ("Transition Tax") is a tax on previously untaxed earnings and profits ("E&P") of certain foreign subsidiaries. To determine the amount of the Transition Tax, the Company must determine, in addition to other factors, the amount of post-1986 E&P of the relevant foreign subsidiaries, as well as the amount of non-U.S. income tax paid on such earnings. The Company made a provisional estimate of the Transition Tax obligation in 2017; however, the Company is continuing to gather additional information to compute a more precise amount. The Company will elect to pay the transition tax liability over the 8-year deferral period, with 8% due in each of the first five years, 15% in the sixth year, 20% in the seventh year, and 25% in the eighth year. On April 2, 2018, the Department of the Treasury issued additional guidance on how to account for certain aspects of the TCJA, including the Transition Tax, in Notice 2018-26 (the "Notice"), which may have a material impact on the Company's

consolidated financial position, results of operations and cash flows. The Company is currently analyzing the Notice and assessing its impact on the provisional amounts previously recorded. The Company has not made any changes to this provisional amount during the quarter ended March 31, 2018.

Because of the complexity of the new Global Intangible Low-Taxed Income (“GILTI”) rules, the Company is continuing to evaluate this provision of the TCJA and the application of ASC 740. Accordingly, the accounting is incomplete, and the Company is not yet able to make reasonable estimates of the effects; therefore, no provisional estimates were recorded. Under U.S. GAAP, the Company is allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the “period cost method”) or (2) factoring such amounts into a company’s measurement of its deferred taxes (the “deferred method”). The Company’s selection of an accounting policy with

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

respect to the new GILTI tax rules will depend on complex calculations that the Company is unable to reasonably determine at this time.

The Company will continue to evaluate the interpretations of the TCJA, the assumptions made within the calculations, and future guidance that may be issued to determine the impact, if any, on these provisional calculations, which may materially change the Company's tax determinations.

13. Earnings per share

Basic earnings per common share is computed by dividing net earnings available to common stockholders by the weighted average number of common shares outstanding during each period. Diluted earnings per common share assumes the exercise of outstanding stock options and the vesting of RSUs using the treasury stock method when the effects of such assumptions are dilutive. A reconciliation of net earnings available to common stockholders and weighted-average common shares outstanding for purposes of calculating basic and diluted earnings per share is as follows:

| | Three Months Ended | |
|---|--------------------|---------------|
| | March 31, 2018 | April 1, 2017 |
| Net earnings attributable to Mohawk Industries, Inc. | \$208,766 | 200,554 |
| Accretion of redeemable noncontrolling interest ^(a) | (305) | — |
| Net earnings available to common stockholders | \$208,461 | 200,554 |
| Weighted-average common shares outstanding—basic and diluted: | | |
| Weighted-average common shares outstanding—basic | 74,453 | 74,212 |
| Add weighted-average dilutive potential common shares—options to purchase common shares and RSUs, net | 476 | 542 |
| Weighted-average common shares outstanding—diluted | 74,929 | 74,754 |
| Earnings per share attributable to Mohawk Industries, Inc. | | |
| Basic | \$2.80 | 2.70 |
| Diluted | \$2.78 | 2.68 |

(a) Represents the accretion of the Company's redeemable noncontrolling interest to redemptive value. The Company will have the option to call and the holder the option to put this noncontrolling interest on May 12, 2018.

14. Segment reporting

The Company has three reporting segments: the Global Ceramic segment, the Flooring NA segment and the Flooring ROW segment. The Global Ceramic segment designs, manufactures, sources and markets a broad line of ceramic tile, porcelain tile, natural stone tile and other products including natural stone, quartz and porcelain slab countertops, which it distributes primarily in North America, Europe and Russia through its network of regional distribution centers and Company-operated service centers. The segment's product lines are sold through Company-operated service centers, independent distributors, home center retailers, tile and flooring retailers and contractors. The

Flooring NA segment designs, manufactures, sources and markets its floor covering product lines, including carpets, rugs, carpet pad, hardwood, laminate and vinyl products, including LVT, which it distributes through its network of regional distribution centers and satellite warehouses using company-operated trucks, common carrier or rail transportation. The segment's product lines are sold through various selling channels, including independent floor covering retailers, home centers, mass merchandisers, department stores, shop at home, buying groups, commercial dealers and commercial end users. The Flooring ROW segment designs, manufactures, sources, licenses and markets laminate, hardwood flooring, roofing elements, insulation boards, medium-density fiberboard, chipboards, sheet vinyl and LVT, which it distributes primarily in Europe and Russia through various selling channels, which include retailers, independent distributors and home centers.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The accounting policies for each operating segment are consistent with the Company's policies for the consolidated financial statements. Amounts disclosed for each segment are prior to any elimination or consolidation entries.

Corporate general and administrative expenses attributable to each segment are estimated and allocated accordingly.

Segment performance is evaluated based on operating income.

Segment information is as follows:

| | Three Months Ended | |
|---|--------------------|----------------------|
| | March 31, 2018 | April 1, 2017 |
| Net sales: | | |
| Global Ceramic segment | \$876,548 | 784,969 |
| Flooring NA segment | 950,358 | 939,496 |
| Flooring ROW segment | 585,296 | 496,180 |
| Intersegment sales | — | — |
| | \$2,412,202 | 2,220,645 |
| Operating income (loss): | | |
| Global Ceramic segment | \$113,417 | 116,036 |
| Flooring NA segment | 74,748 | 92,142 |
| Flooring ROW segment | 89,060 | 76,095 |
| Corporate and intersegment eliminations | (8,826) | (9,489) |
| | \$268,399 | 274,784 |
| | | |
| | March 31, 2018 | December 31, 2017 |
| Assets: | | |
| Global Ceramic segment | \$5,029,225 | 4,838,310 |
| Flooring NA segment | 3,847,555 | 3,702,137 |
| Flooring ROW segment | 3,410,958 | 3,245,424 |
| Corporate and intersegment eliminations | 272,634 | 308,982 |
| | \$12,560,372 | 12,094,853 |

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. Commitments and contingencies

The Company is involved in litigation from time to time in the regular course of its business. Except as noted below, there are no material legal proceedings pending or known by the Company to be contemplated to which the Company is a party or to which any of its property is subject.

Alabama Municipal Litigation

In September 2016, the Water Works and Sewer Board of the City of Gadsden, Alabama (the "Gadsden Water Board") filed an individual complaint in the Circuit Court of Etowah County, Alabama against certain manufacturers, suppliers, and users of chemicals containing perfluorinated compounds, including the Company. On October 26, 2016, the defendants removed the case to the United States District Court for the Northern District of Alabama, Middle Division, alleging diversity of citizenship and fraudulent joinder. The Gadsden Water Board filed a motion to remand the case back to the state court, and the defendants opposed the Gadsden Water Board's motion. The federal court granted Gadsden Water Board's motion for remand. On October 24, 2017, the Company appealed the federal court's determination that co-defendant Industrial Chemicals, Inc. ("ICI") was properly joined as a party to the case. On February 22, 2018, the Court of Appeals dismissed the appeal for lack of jurisdiction. ICI's presence in the case deprives the federal court of jurisdiction over the case.

In May, 2017, the Water Works and Sewer Board of the Town of Centre, Alabama (the "Centre Water Board") filed a very similar complaint to the Gadsden Water Board complaint in the Circuit Court of Cherokee County. On June 19, 2017, the defendants removed this case to the United States District Court for the Northern District of Alabama, Middle Division, again alleging diversity of citizenship and fraudulent joinder. The Centre Water Board filed a motion to remand the case back to state court, and the defendants opposed the Centre Water Board's motion. The federal court granted Centre Water Board's motion for remand. On December 6, 2017, the Company appealed the federal court's determination that co-defendant ICI was properly joined as a party to that case as well. On January 31, 2018, the Court of Appeals dismissed the appeal for lack of jurisdiction. ICI's presence in the case deprives the federal court of jurisdiction over the case.

The Company has never manufactured perfluorinated compounds but purchased them for use in the manufacture of its carpets prior to 2007. The Gadsden and Centre Water Boards are not alleging that chemical levels in the Company's wastewater discharge exceeded legal limits. Instead, the Gadsden and Centre Water Boards are seeking lost profits based on allegations that their customers decreased water purchases, as well as reimbursement for the cost of a filter and punitive damages.

Belgian Tax Matter

In January 2012, the Company received a €23,789 assessment from the Belgian tax authority related to its year ended December 31, 2008, asserting that the Company had understated its Belgian taxable income for that year. The Company filed a formal protest in the first quarter of 2012 refuting the Belgian tax authority's position. The Belgian tax authority set aside the assessment in the third quarter of 2012 and refunded all related deposits, including interest income of €1,583 earned on such deposits. However, on October 23, 2012, the Belgian tax authority notified the Company of its intent to increase the Company's taxable income for the year ended December 31, 2008 under a revised theory. On December 28, 2012, the Belgian tax authority issued assessments for the years ended December 31, 2005 and December 31, 2009, in the amounts of €46,135 and €35,567, respectively, including penalties, but excluding interest. The Company filed a formal protest during the first quarter of 2013 relating to the new assessments. In September 2013, the Belgian tax authority denied the Company's protests, and the Company has brought these two years before the Court of First Appeal in Bruges. In December 2013, the Belgian tax authority issued additional

assessments related to the years ended December 31, 2006, 2007, and 2010, in the amounts of €38,817, €39,635, and €43,117, respectively, including penalties, but excluding interest. The Company filed formal protests during the first quarter of 2014, refuting the Belgian tax authority's position for each of the years assessed. In the quarter ended June 28, 2014, the Company received a formal assessment for the year ended December 31, 2008, totaling €30,131, against which the Company also submitted its formal protest. All 4 additional years have been brought before the Court of First Appeal in November 2014. In January of 2015, the Company met with the Court of First Appeal in Bruges, Belgium and agreed with the Belgium tax authorities to consolidate and argue the issues regarding the years 2005 and 2009, and apply the ruling to all of the open years (to the extent there are no additional facts/procedural arguments in the other years). In May 2017, the statute of limitation was extended to include 2011.

On January 27, 2016, the Court of First Appeal in Bruges, Belgium ruled in favor of the Company with respect to the calendar years ending December 31, 2005 and December 31, 2009. On March 9, 2016, the Belgian tax authority lodged its Notification of Appeal with the Ghent Court of Appeal.

The Company disagrees with the views of the Belgian tax authority on this matter and will persist in its vigorous defense. Nevertheless, on May 24, 2016, the tax collector representing the Belgian tax authorities imposed a lien on the Company's properties

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

in Wielsbeke (Ooigemstraat and Breestraat), Oostrozebeke (Ingelmunstersteenweg) and Desselgem (Waregemstraat) included in the Flooring ROW segment. The purpose of the lien is to provide security for payment should the Belgian tax authority prevail on its appeal. The lien does not interfere with the Company's operations at these properties.

General

The Company believes that adequate provisions for resolution of all contingencies, claims and pending litigation have been made for probable losses that are reasonably estimable. These contingencies are subject to significant uncertainties and the Company is unable to estimate the amount or range of loss, if any, in excess of amounts accrued. The Company does not believe that the ultimate outcome of these actions will have a material adverse effect on its financial condition but could have a material adverse effect on its results of operations, cash flows or liquidity in a given quarter or year.

16. Debt

Senior Credit Facility

On March 26, 2015, the Company amended and restated its 2013 senior credit facility increasing its size from \$1,000,000 to \$1,800,000 and extending the maturity from September 25, 2018 to March 26, 2020 (as amended and restated, the "2015 Senior Credit Facility"). The 2015 Senior Credit Facility eliminated certain provisions in the 2013 Senior Credit Facility, including those that: (a) accelerated the maturity date to 90 days prior to the maturity of senior notes due in January 2016 if certain specified liquidity levels were not met; and (b) required that certain subsidiaries guarantee the Company's obligations if the Company's credit ratings fell below investment grade. The 2015 Senior Credit Facility also modified certain negative covenants to provide the Company with additional flexibility, including flexibility to make acquisitions and incur additional indebtedness. On March 1, 2016, the Company amended the 2015 Senior Credit Facility to, among other things, carve out from the general limitation on subsidiary indebtedness the issuance of Euro-denominated commercial paper notes by subsidiaries. Additionally, at several points in 2016, the Company extended the maturity date of the 2015 Senior Credit Facility from March 26, 2020 to March 26, 2021. In the first half of 2017, the Company amended the 2015 Senior Credit Facility to extend the maturity date from March 26, 2021 to March 26, 2022.

At the Company's election, revolving loans under the 2015 Senior Credit Facility bear interest at annual rates equal to either (a) LIBOR for 1, 2, 3 or 6 month periods, as selected by the Company, plus an applicable margin ranging between 1.00% and 1.75% (1.125% as of March 31, 2018), or (b) the higher of the Wells Fargo Bank, National Association prime rate, the Federal Funds rate plus 0.5%, or a monthly LIBOR rate plus 1.0%, plus an applicable margin ranging between 0.00% and 0.75% (0.125% as of March 31, 2018). The Company also pays a commitment fee to the lenders under the 2015 Senior Credit Facility on the average amount by which the aggregate commitments of the lenders' exceed utilization of the 2015 Senior Credit Facility ranging from 0.10% to 0.225% per annum (0.125% as of March 31, 2018). The applicable margins and the commitment fee are determined based on whichever of the Company's Consolidated Net Leverage Ratio or its senior unsecured debt rating (or if not available, corporate family rating) results in the lower applicable margins and commitment fee (with applicable margins and the commitment fee increasing as that ratio increases or those ratings decline, as applicable).

The obligations of the Company and its subsidiaries in respect of the 2015 Senior Credit Facility are unsecured.

The 2015 Senior Credit Facility includes certain affirmative and negative covenants that impose restrictions on the Company's financial and business operations, including limitations on liens, subsidiary indebtedness, fundamental changes, asset dispositions, dividends and other similar restricted payments, transactions with affiliates, future

negative pledges, and changes in the nature of the Company's business. The Company is also required to maintain a Consolidated Interest Coverage Ratio of at least 3.0 to 1.0 and a Consolidated Net Leverage Ratio of no more than 3.75 to 1.0, each as of the last day of any fiscal quarter. The limitations contain customary exceptions or, in certain cases, do not apply as long as the Company is in compliance with the financial ratio requirements and is not otherwise in default.

The 2015 Senior Credit Facility also contains customary representations and warranties and events of default, subject to customary grace periods.

The Company paid financing costs of \$567 in connection with the extension of its 2015 Senior Credit Facility from March 26, 2021 to March 26, 2022. These costs were deferred and, along with unamortized costs of \$6,873 are being amortized over the term of the 2015 Senior Credit Facility.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of March 31, 2018, amounts utilized under the 2015 Senior Credit Facility included \$52,432 of borrowings and \$57,337 of standby letters of credit related to various insurance contracts and foreign vendor commitments. The outstanding borrowings of \$1,278,321 under the Company's U.S. and European commercial paper programs as of March 31, 2018 reduce the availability of the 2015 Senior Credit Facility. Including commercial paper borrowings, the Company has utilized \$1,388,090 under the 2015 Senior Credit Facility resulting in a total of \$411,910 available as of March 31, 2018.

Commercial Paper

On February 28, 2014 and July 31, 2015, the Company established programs for the issuance of unsecured commercial paper in the United States and Eurozone capital markets, respectively. Commercial paper issued under the U.S. and European programs will have maturities ranging up to 397 days and 183 days, respectively. None of the commercial paper notes may be voluntarily prepaid or redeemed by the Company and all rank pari passu with all of the Company's other unsecured and unsubordinated indebtedness. To the extent that the Company issues European commercial paper notes through a subsidiary of the Company, the notes will be fully and unconditionally guaranteed by the Company.

The Company uses its 2015 Senior Credit Facility as a liquidity backstop for its commercial paper programs. Accordingly, the total amount outstanding under all of the Company's commercial paper programs may not exceed \$1,800,000 (less any amounts drawn on the 2015 Credit Facility) at any time.

The proceeds from the issuance of commercial paper notes are available for general corporate purposes. As of March 31, 2018, there was \$342,400 outstanding under the U.S. program, and the euro equivalent of \$935,921 was outstanding under the European program. The weighted-average interest rate and maturity period for the U.S. program were 2.34% and 24.17 days, respectively. The weighted average interest rate and maturity period for the European program were (0.20)% and 25.52 days, respectively.

Senior Notes

On September 11, 2017, Mohawk Capital Finance S.A. ("Mohawk Finance"), an indirect wholly-owned finance subsidiary of the Company, completed the issuance and sale of €300,000 aggregate principal amount of its Floating Rate Notes due September 11, 2019 ("Floating Rate Notes"). The Floating Rate Notes are senior unsecured obligations of Mohawk Finance and rank pari passu with all of Mohawk Finance's other existing and future senior unsecured indebtedness. The Floating Rate Notes are fully, unconditionally and irrevocably guaranteed by the Company on a senior unsecured basis. These notes bear interest at a rate per annum, reset quarterly, equal to three-month EURIBOR plus 0.3% (but in no event shall the interest rate be less than zero). Interest on the Floating Rate Notes is payable quarterly on September 11, December 11, March 11, and June 11 of each year. Mohawk Finance paid financing costs of \$911 in connection with the Floating Rate Notes. These costs were deferred and are being amortized over the term of the Floating Rate Notes.

On June 9, 2015, the Company issued €500,000 aggregate principal amount of 2.00% Senior Notes due January 14, 2022. The 2.00% Senior Notes are senior unsecured obligations of the Company and rank pari passu with all of the Company's existing and future unsecured indebtedness. Interest on the 2.00% Senior Notes is payable annually in cash on January 14 of each year. The Company paid financing costs of \$4,218 in connection with the 2.00% Senior Notes. These costs were deferred and are being amortized over the term of the 2.00% Senior Notes.

On January 31, 2013, the Company issued \$600,000 aggregate principal amount of 3.85% Senior Notes due February 1, 2023. The 3.85% Senior Notes are senior unsecured obligations of the Company and rank pari passu with

all the Company's existing and future unsecured indebtedness. Interest on the 3.85% Senior Notes is payable semi-annually in cash on February 1 and August 1 of each year. The Company paid financing costs of \$6,000 in connection with the 3.85% Senior Notes. These costs were deferred and are being amortized over the term of the 3.85% Senior Notes.

As defined in the related agreements, the Company's senior notes contain covenants, representations and warranties and events of default, subject to exceptions, and restrictions on the Company's financial and business operations, including limitations on liens, restrictions on entering into sale and leaseback transactions, fundamental changes, and a provision allowing the holder of the notes to require repayment upon a change of control triggering event.

Accounts Receivable Securitization

On December 19, 2012, the Company entered into a three-year on-balance sheet trade accounts receivable securitization agreement (the "Securitization Facility"). On September 11, 2014, the Company made certain modifications to its Securitization

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Facility, which modifications, among other things, increased the aggregate borrowings available under the facility from \$300,000 to \$500,000 and decreased the interest margins on certain borrowings. Amounts borrowed under the Securitization Facility bore interest at LIBOR plus an applicable margin of 0.70% per annum and the borrower paid a commitment fee at a per annum rate of 0.30% on the unused amount of each lender's commitment. On December 10, 2015, the Company extended the termination date to December 19, 2016, and on December 13, 2016, the Company extended the termination date to December 19, 2017. The Company paid financing costs of \$250 in connection with the second extension. These costs were deferred and are being amortized over the remaining term of the Securitization Facility. The Securitization Facility expired in accordance with its terms on December 19, 2017.

The fair values and carrying values of our debt instruments are detailed as follows:

| | March 31, 2018 | | December 31, 2017 | |
|---|----------------|----------------|-------------------|----------------|
| | Fair Value | Carrying Value | Fair Value | Carrying Value |
| 3.85% senior notes, payable February 1, 2023; interest payable semiannually | \$611,394 | 600,000 | 622,752 | 600,000 |
| 2.00% senior notes, payable January 14, 2022; interest payable annually | 650,302 | 616,143 | 634,193 | 600,096 |
| Floating Rate Notes, payable September 11, 2019, interest payable quarterly | 370,093 | 369,686 | 360,807 | 360,058 |
| U.S. commercial paper | 342,400 | 342,400 | 228,500 | 228,500 |
| European commercial paper | 935,921 | 935,921 | 912,146 | 912,146 |
| 2015 Senior Credit Facility | 52,432 | 52,432 | 62,104 | 62,104 |
| Capital leases and other | 6,832 | 6,832 | 6,934 | 6,934 |
| Unamortized debt issuance costs | (5,846) | (5,846) | (6,260) | (6,260) |
| Total debt | 2,963,528 | 2,917,568 | 2,821,176 | 2,763,578 |
| Less current portion of long-term debt and commercial paper | 1,331,917 | 1,331,917 | 1,203,683 | 1,203,683 |
| Long-term debt, less current portion | \$1,631,611 | 1,585,651 | 1,617,493 | 1,559,895 |

The fair values of the Company's debt instruments were estimated using market observable inputs, including quoted prices in active markets, market indices and interest rate measurements. Within the hierarchy of fair value measurements, these are Level 2 fair values.

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

Overview

The Company has three reporting segments, Global Ceramic, Flooring North America ("Flooring NA") and Flooring Rest of the World ("Flooring ROW"). The Global Ceramic segment designs, manufactures, sources and markets a broad line of ceramic tile, porcelain tile, natural stone tile and other products including natural stone, quartz and porcelain slab countertops, which it distributes primarily in North America, Europe and Russia through various selling channels, which include company-owned stores, independent distributors and home centers. The Flooring NA segment designs, manufactures, sources and markets its floor covering product lines, including carpets, rugs, carpet pad, hardwood, laminate and vinyl products, including LVT, which it distributes through its network of regional distribution centers and satellite warehouses using Company-operated trucks, common carrier or rail transportation. The segment's product lines are sold through various selling channels, including independent floor covering retailers, distributors, home centers, mass merchandisers, department stores, shop at home, buying groups, commercial contractors and commercial end users. The Flooring ROW segment designs, manufactures, sources, licenses and markets laminate, hardwood flooring, roofing elements, insulation boards, medium-density fiberboard ("MDF"), chipboards, other wood products and vinyl products, including LVT, which it distributes primarily in Europe and Russia through various selling channels, which include retailers, independent distributors and home centers.

The Company is a significant participant in every major product category across the global flooring industry. A majority of the Company's sales and long-lived assets are located in the United States and Europe. The Company expects continued strong performance in the United States market if residential housing starts and remodeling continue to grow. The Company also has operations in Europe, Russia and other parts of the world where the Company is growing market share, especially in its ceramic tile product lines. The Company expects sales growth to continue on a local basis and operating income should improve despite inflation and declining IP revenues attributed to expiring IP contracts. The Company is also implementing product price increases due to escalating material costs.

In 2017, the Company invested over \$900 million in capital projects to expand capacities, differentiate products, and improve productivity. In 2018, the Company plans to invest an additional \$750 million in its existing businesses to complete projects that were begun in 2017 and to commence new initiatives. The largest investments during this two-year period are the expansion of LVT in the U.S. and Europe; ceramic capacity increases in the U.S., Mexico, Italy, Poland, Bulgaria and Russia; luxury laminate in the U.S., Europe and Russia; carpet tile in Europe; sheet vinyl in Russia; countertops in the U.S. and Europe; and carpet and rugs in the U.S.

As a result of the capital investments mentioned above and the expiration of IP contracts, the Company will incur a reduction of operating income of \$70-\$75 million for the year ended 2018. This consists of \$30-\$35 million from increased start-up costs and \$40 million of decreased revenues from IP contracts that expired during 2017. Net earnings attributable to the Company were \$208.8 million, or diluted EPS of \$2.78 for 2018 compared to net earnings attributable to the Company of \$200.6 million, or diluted EPS of \$2.68 for 2017. The increase in EPS was primarily attributable to savings from capital investments and cost reduction initiatives, the favorable net impact of price and product mix, and the decrease in income tax expense due to the lower effective tax rate as a result of the recent reforms in the U.S. and Belgium, partially offset by higher inflation costs, and the unfavorable impact of higher restructuring, acquisition and integration-related, and other costs.

For the quarter ended March 31, 2018, the Company generated \$183.2 million of cash from operating activities. As of March 31, 2018, the Company had cash and cash equivalents of \$114.8 million, of which \$21.3 million was in the United States and \$93.5 million was in foreign countries.

Recent Events

On November 20, 2017, the Company announced that it agreed to acquire Godfrey Hirst Group, the leading flooring company in Australia and New Zealand, further extending Mohawk's global position. The acquisition is expected to close during the second quarter of 2018 for approximately A\$556.0 million (\$427.1 million equivalent at March 31, 2018).

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Results of Operations

Quarter Ended March 31, 2018, as compared with Quarter Ended April 1, 2017

Net sales

Net sales for the three months ended March 31, 2018 were \$2,412.2 million, reflecting an increase of \$191.6 million, or 8.6%, from the \$2,220.6 million reported for the three months ended April 1, 2017. The increase was attributable to higher sales volume of approximately \$57 million, or 2%, which includes sales volume attributable to acquisitions of approximately \$45 million. Also contributing to the increase in sales was the net impact of favorable foreign exchange rates of approximately \$99 million, or 4% and the favorable net impact of price and product mix of approximately \$36 million, or 2%.

Global Ceramic segment—Net sales increased \$91.6 million, or 11.7%, to \$876.5 million for the three months ended March 31, 2018, compared to \$785.0 million for the three months ended April 1, 2017. The increase was primarily attributable to higher sales volume of approximately \$68 million, or 9%, which includes sales volume attributable to acquisitions of approximately \$45 million. Also contributing to the increase in sales was the net impact of favorable foreign exchange rates of approximately \$29 million, or 3%, partially offset by the unfavorable net impact of price and product mix of approximately \$5 million.

Flooring NA segment—Net sales increased \$10.9 million, or 1.2%, to \$950.4 million for the three months ended March 31, 2018, compared to \$939.5 million for the three months ended April 1, 2017. The increase of \$11 million was primarily attributable to the favorable net impact of price and product mix and higher sales volume.

Flooring ROW segment—Net sales increased \$89.1 million, or 18.0%, to \$585.3 million for the three months ended March 31, 2018, compared to \$496.2 million for the three months ended April 1, 2017. The increase was primarily attributable to the net impact of favorable foreign exchange rates of approximately \$70 million, or 14% and the favorable impact of price and product mix of approximately \$34 million, or 7%, partially offset by a decrease in sales volume of approximately \$15 million, or 3%. The decrease in sales volume is primarily due to the decline of IP contract revenue.

Gross profit

Gross profit for the three months ended March 31, 2018 was \$704.7 million (29.2% of net sales), an increase of \$24.3 million or 3.6%, compared to gross profit of \$680.4 million (30.6% of net sales) for the three months ended April 1, 2017. As a percentage of net sales, gross profit decreased 140 basis points. The increase in gross profit dollars was primarily attributable to the favorable net impact of price and product mix of approximately \$37 million, the net impact of favorable foreign exchange rates of approximately \$23 million, savings from capital investments and cost reduction initiatives of approximately \$21 million, and higher sales volumes of approximately \$11 million, partially offset by higher inflation costs of approximately \$49 million, including increased material costs of approximately \$34 million, approximately \$13 million due to the unfavorable impact of higher restructuring, acquisition and integration-related, and other costs, and approximately \$6 million of startup costs associated with large investments to expand sales, add product categories and enter new markets.

Selling, general and administrative expenses

Selling, general and administrative expenses for the three months ended March 31, 2018 were \$436.3 million (18.1% of net sales), an increase of \$30.7 million compared to \$405.6 million (18.3% of net sales) for the three months ended April 1, 2017. As a percentage of net sales, selling, general and administrative expenses decreased 20 basis points.

The increase in selling, general and administrative expenses in dollars was primarily attributable to the net impact of unfavorable foreign exchange rates of approximately \$15 million, approximately \$13 million of costs due to higher sales volume, and approximately \$6 million due to the unfavorable impact of higher restructuring, acquisition and integration-related, and other costs, partially offset by savings from capital investments and cost reduction initiatives of approximately \$10 million.

Operating income

Operating income for the three months ended March 31, 2018 was \$268.4 million (11.1% of net sales) reflecting a decrease of \$6.4 million, or 2.3%, compared to operating income of \$274.8 million (12.4% of net sales) for the three months ended April 1, 2017. The decrease in operating income was primarily attributable to higher inflation costs of approximately \$52 million, including increased material costs of approximately \$34 million, approximately \$19 million due to the unfavorable impact of higher restructuring, acquisition and integration-related, and other costs, and approximately \$9 million of startup costs associated with large investments to expand sales, add product categories, and enter new markets, partially offset by the favorable net impact of

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price and product mix of approximately \$38 million, savings from capital investments and cost reduction initiatives of approximately \$31 million, and the net impact of favorable exchange rates of approximately \$8 million.

Global Ceramic segment—Operating income was \$113.4 million (12.9% of segment net sales) for the three months ended March 31, 2018 reflecting a decrease of \$2.6 million compared to operating income of \$116.0 million (14.8% of segment net sales) for the three months ended April 1, 2017. The decrease in operating income was primarily attributable to higher inflation costs of approximately \$13 million, the unfavorable net impact of price and product mix of approximately \$7 million, and approximately \$3 million due to the unfavorable impact of higher restructuring, acquisition and integration-related, and other costs, partially offset by savings from capital investments and cost reduction initiatives of approximately \$14 million and increased sales volume of approximately \$11 million.

Flooring NA segment—Operating income was \$74.7 million (7.9% of segment net sales) for the three months ended March 31, 2018 reflecting a decrease of \$17.4 million compared to operating income of \$92.1 million (9.8% of segment net sales) for the three months ended April 1, 2017. The decrease in operating income was primarily attributable to higher inflation costs of approximately \$25 million, including increased material costs of approximately \$20 million, and approximately \$14 million due to the unfavorable impact of higher restructuring, acquisition and integration-related, and other costs, partially offset by the favorable net impact of price and product mix of approximately \$14 million and savings from capital investments and cost reduction initiatives of approximately \$13 million.

Flooring ROW segment—Operating income was \$89.1 million (15.2% of segment net sales) for the three months ended March 31, 2018 reflecting an increase of \$13.0 million compared to operating income of \$76.1 million (15.3% of segment net sales) for the three months ended April 1, 2017. The increase in operating income was primarily attributable to the favorable net impact of price and product mix of approximately \$31 million, and the net impact of favorable exchange rates of approximately \$6 million, partially offset by higher inflation costs of approximately \$14 million, including increased material costs of approximately \$12 million, and approximately \$10 million in decreased sales volumes, primarily attributable to lower IP revenue.

Interest expense

Interest expense was \$7.5 million for the three months ended March 31, 2018, reflecting a decrease of \$0.7 million compared to interest expense of \$8.2 million for the three months ended April 1, 2017. The decrease was primarily attributable to a shift in the Company's borrowings to lower interest rate instruments.

Other expense (income), net

Other expense (income), net was \$4.0 million for the three months ended March 31, 2018, reflecting an unfavorable change of \$6.8 million compared to other income of \$2.8 million for the three months ended April 1, 2017. The change was primarily attributable to the increased unfavorable impact of foreign exchange rates on transactions in the current year and a charge for the release of an indemnification receivable.

Income tax expense

For the quarter ended March 31, 2018, the Company recorded income tax expense of \$47.6 million on earnings before income taxes of \$256.9 million for an effective tax rate of 18.5%, as compared to an income tax expense of \$68.4 million on earnings before income taxes of \$269.4 million, for an effective tax rate of 25.4% for the quarter ended April 1, 2017. The effective tax rate for the quarter was favorably impacted by the net tax benefit of tax reforms in Belgium, which reduced the statutory rate from 33.99% to 29.58%, and the TCJA, which was signed into law on December 22, 2017 and reduced the statutory rate from 35% to 21%.

Liquidity and Capital Resources

The Company's primary capital requirements are for working capital, capital expenditures and acquisitions. The Company's capital needs are met primarily through a combination of internally generated funds, commercial paper, bank credit lines, term and senior notes and credit terms from suppliers.

Net cash provided by operating activities in the first three months of 2018 was \$183.2 million, compared to net cash provided by operating activities of \$165.9 million in the first three months of 2017. The increase of \$17.3 million in 2018 was primarily attributable to the increase in earnings.

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Net cash used in investing activities in the first three months of 2018 was \$241.4 million compared to net cash used in investing activities of \$202.1 million in the first three months of 2017. The increase was primarily due to acquisitions in the current year of \$24.4 million and increased capital expenditures of \$49.7 million in the current year. These increases were offset by the net redemption activity in short-term investments of \$33.9 million. The Company continues to invest to optimize sales and profit growth this year and beyond with product expansion and cost reduction projects in the business. Capital spending during the remainder of 2018 is expected to approximate \$500 million, resulting in the full year spending being approximately \$750 million.

Net cash provided by financing activities in the first three months of 2018 was \$86.6 million compared to net cash provided by financing activities of \$90.9 million in the three months of 2017. The change in cash provided by financing activities is primarily attributable to decreased borrowings in the current year.

As of March 31, 2018, the Company had cash of \$114.8 million, of which \$93.5 million was held outside the United States. The Company plans to permanently reinvest the cash held outside the United States. The Company believes that its cash and cash equivalents on hand, cash generated from operations and availability under its existing credit facilities will be sufficient to meet its capital expenditure, working capital and debt servicing requirements over at least the next twelve months.

The Company may continue, from time to time, to retire its outstanding debt through cash purchases in the open market, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, the Company's liquidity requirements, contractual restrictions and other factors. The amount involved may be material.

Senior Credit Facility

On March 26, 2015, the Company amended and restated its 2013 Senior Credit Facility increasing its size from \$1,000.0 million to \$1,800.0 million and extending the maturity from September 25, 2018 to March 26, 2020 (as amended and restated, the "2015 Senior Credit Facility"). The 2015 Senior Credit Facility eliminated certain provisions in the 2013 Senior Credit Facility, including those that: (a) accelerated the maturity date to 90 days prior to the maturity of senior notes due in January 2016 if certain specified liquidity levels were not met; and (b) required that certain subsidiaries guarantee the Company's obligations if the Company's credit ratings fell below investment grade. The 2015 Senior Credit Facility also modified certain negative covenants to provide the Company with additional flexibility, including flexibility to make acquisitions and incur additional indebtedness. On March 1, 2016, the Company amended the 2015 Senior Credit Facility to, among other things, carve out from the general limitation on subsidiary indebtedness the issuance of Euro-denominated commercial paper notes by subsidiaries. Additionally, at several points in 2016, the Company extended the maturity date of the 2015 Senior Credit Facility from March 26, 2020 to March 26, 2021. In the first half of 2017, the Company amended the 2015 Senior Credit Facility to extend the maturity date from March 26, 2021 to March 26, 2022.

At the Company's election, revolving loans under the 2015 Senior Credit Facility bear interest at annual rates equal to either (a) LIBOR for 1, 2, 3 or 6 month periods, as selected by the Company, plus an applicable margin ranging between 1.00% and 1.75% (1.125% as of March 31, 2018), or (b) the higher of the Wells Fargo Bank, National Association prime rate, the Federal Funds rate plus 0.5%, or a monthly LIBOR rate plus 1.0%, plus an applicable margin ranging between 0.00% and 0.75% (0.125% as of March 31, 2018). The Company also pays a commitment fee to the lenders under the 2015 Senior Credit Facility on the average amount by which the aggregate commitments of the lenders' exceed utilization of the 2015 Senior Credit Facility ranging from 0.10% to 0.225% per annum (0.125% as of March 31, 2018). The applicable margins and the commitment fee are determined based on whichever of the Company's Consolidated Net Leverage Ratio or its senior unsecured debt rating (or if not available, corporate family rating) results in the lower applicable margins and commitment fee (with applicable margins and the commitment fee

increasing as that ratio increases or those ratings decline, as applicable).

The obligations of the Company and its subsidiaries in respect of the 2015 Senior Credit Facility are unsecured.

The 2015 Senior Credit Facility includes certain affirmative and negative covenants that impose restrictions on the Company's financial and business operations, including limitations on liens, subsidiary indebtedness, fundamental changes, asset dispositions, dividends and other similar restricted payments, transactions with affiliates, future negative pledges, and changes in the nature of the Company's business. The Company is also required to maintain a Consolidated Interest Coverage Ratio of at least 3.0 to 1.0 and a Consolidated Net Leverage Ratio of no more than 3.75 to 1.0, each as of the last day of any fiscal quarter. The limitations contain customary exceptions or, in certain cases, do not apply as long as the Company is in compliance with the financial ratio requirements and is not otherwise in default.

The 2015 Senior Credit Facility also contains customary representations and warranties and events of default, subject to customary grace periods.

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The Company paid financing costs of \$0.6 million in connection with the extension of its 2015 Senior Credit Facility from March 26, 2021 to March 26, 2022. These costs were deferred and, along with unamortized costs of \$6.9 million are being amortized over the term of the 2015 Senior Credit Facility.

As of March 31, 2018, amounts utilized under the 2015 Senior Credit Facility included \$52.4 million of borrowings and \$57.3 million of standby letters of credit related to various insurance contracts and foreign vendor commitments. The outstanding borrowings of \$1,278.3 million under the Company's U.S. and European commercial paper programs as of March 31, 2018 reduce the availability of the 2015 Senior Credit Facility. Including commercial paper borrowings, the Company has utilized \$1,388.1 million under the 2015 Senior Credit Facility resulting in a total of \$411.9 million available as of March 31, 2018.

Commercial Paper

On February 28, 2014 and July 31, 2015, the Company established programs for the issuance of unsecured commercial paper in the United States and Eurozone capital markets, respectively. Commercial paper issued under the U.S. and European programs will have maturities ranging up to 397 days and 183 days, respectively. None of the commercial paper notes may be voluntarily prepaid or redeemed by the Company and all rank pari passu with all of the Company's other unsecured and unsubordinated indebtedness. To the extent that the Company issues European commercial paper notes through a subsidiary of the Company, the notes will be fully and unconditionally guaranteed by the Company.

The Company uses its 2015 Senior Credit Facility as a liquidity backstop for its commercial paper programs. Accordingly, the total amount outstanding under all of the Company's commercial paper programs may not exceed \$1,800.0 million (less any amounts drawn on the 2015 Credit Facility) at any time.

The proceeds from the issuance of commercial paper notes are available for general corporate purposes. As of March 31, 2018, there was \$342.4 million outstanding under the U.S. program, and the euro equivalent of \$935.9 million was outstanding under the European program. The weighted-average interest rate and maturity period for the U.S. program were 2.34% and 24.17 days, respectively. The weighted average interest rate and maturity period for the European program were (0.20)% and 25.52 days, respectively.

Senior Notes

On September 11, 2017, Mohawk Capital Finance S.A. ("Mohawk Finance"), an indirect wholly-owned finance subsidiary of the Company, completed the issuance and sale of €300.0 million aggregate principal amount of its Floating Rate Notes due September 11, 2019 ("Floating Rate Notes"). The Floating Rate Notes are senior unsecured obligations of Mohawk Finance and rank pari passu with all of Mohawk Finance's other existing and future senior unsecured indebtedness. The Floating Rate Notes are fully, unconditionally and irrevocably guaranteed by the Company on a senior unsecured basis. These notes bear interest at a rate per annum, reset quarterly, equal to three-month EURIBOR plus 0.3% (but in no event shall the interest rate be less than zero). Interest on the Floating Rate Notes is payable quarterly on September 11, December 11, March 11, and June 11 of each year. Mohawk Finance paid financing costs of \$0.9 million in connection with the Floating Rate Notes. These costs were deferred and are being amortized over the term of the Floating Rate Notes. As defined in the related agreements, the Floating Rate Notes contain covenants, representations and warranties and events of default, subject to exceptions, and restrictions on the Company's financial and business operations, including limitations on liens, restrictions on entering into sale and leaseback transactions, fundamental changes, and a provision allowing the holder of the Floating Rate Notes to require repayment upon a change of control triggering event.

On June 9, 2015, the Company issued €500.0 million aggregate principal amount of 2.00% Senior Notes due January 14, 2022. The 2.00% Senior Notes are senior unsecured obligations of the Company and rank pari passu with all of the Company's existing and future unsecured indebtedness. Interest on the 2.00% Senior Notes is payable annually in cash on January 14 of each year. The Company paid financing costs of \$4.2 million in connection with the 2.00% Senior Notes. These costs were deferred and are being amortized over the term of the 2.00% Senior Notes.

On January 31, 2013, the Company issued \$600.0 million aggregate principal amount of 3.85% Senior Notes due February 1, 2023. The 3.85% Senior Notes are senior unsecured obligations of the Company and rank pari passu with all the Company's existing and future unsecured indebtedness. Interest on the 3.85% Senior Notes is payable semi-annually in cash on February 1 and August 1 of each year. The Company paid financing costs of \$6.0 million in connection with the 3.85% Senior Notes. These costs were deferred and are being amortized over the term of the 3.85% Senior Notes.

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As defined in the related agreements, the Company's senior notes contain covenants, representations and warranties and events of default, subject to exceptions, and restrictions on the Company's financial and business operations, including limitations on liens, restrictions on entering into sale and leaseback transactions, fundamental changes, and a provision allowing the holder of the notes to require repayment upon a change of control triggering event.

Accounts Receivable Securitization

On December 19, 2012, the Company entered into a three-year on-balance sheet trade accounts receivable securitization agreement (the "Securitization Facility"). On September 11, 2014, the Company made certain modifications to its Securitization Facility, which modifications, among other things, increased the aggregate borrowings available under the facility from \$300.0 million to \$500.0 million and decreased the interest margins on certain borrowings. Amounts borrowed under the Securitization Facility bore interest at LIBOR plus an applicable margin of 0.70% per annum and the borrower paid a commitment fee at a per annum rate of 0.30% on the unused amount of each lender's commitment. On December 10, 2015, the Company extended the termination date to December 19, 2016, and on December 13, 2016, the Company extended the termination date to December 19, 2017. The Company paid financing costs of \$0.3 million in connection with the second extension. These costs were deferred and are being amortized over the remaining term of the Securitization Facility. The Securitization Facility expired in accordance with its terms on December 19, 2017.

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Contractual Obligations

There have been no significant changes to the Company's contractual obligations as disclosed in the Company's 2017 Annual Report filed on Form 10-K.

Critical Accounting Policies and Estimates

Refer to Note 1, General and Note 3, Revenue from Contracts with Customers within our Condensed Consolidated Financial Statements of this Form 10-Q for a discussion of the Company's updated accounting policies on revenue recognition. The Company's critical accounting policies and estimates are described in its 2017 Annual Report filed on Form 10-K.

Recent Accounting Pronouncements

See Note 1 in the Notes to Condensed Consolidated Financial Statements of this Form 10-Q under the heading "Recent Accounting Pronouncements" for a discussion of new accounting pronouncements which is incorporated herein by reference.

Impact of Inflation

Inflation affects the Company's manufacturing costs, distribution costs and operating expenses. The Company expects raw material prices to fluctuate based upon worldwide supply and demand of commodities utilized in the Company's production processes. Although the Company attempts to pass on increases in raw material, energy and fuel-related costs to its customers, the Company's ability to do so is dependent upon the rate and magnitude of any increase, competitive pressures and market conditions for the Company's products. There have been in the past, and may be in the future, periods of time during which increases in these costs cannot be fully recovered. In the past, the Company has often been able to enhance productivity and develop new product innovations to help offset increases in costs resulting from inflation in its operations.

Off-Balance Sheet Arrangements

The Company did not have any off-balance sheet arrangements as of March 31, 2018.

Seasonality

The Company is a calendar year-end company. With respect to its Flooring NA and Global Ceramic segments, its results of operations for the first quarter tend to be the weakest followed by the fourth quarter. The second and third quarters typically produce higher net sales and operating income in these segments. These results are primarily due to consumer residential spending patterns which have historically decreased during the holiday season and the first two months following. The Flooring ROW segment's second quarter typically produces the highest net sales and earnings followed by a moderate first and fourth quarter and a weaker third quarter.

Forward-Looking Information

Certain of the statements in this Form 10-Q, particularly those anticipating future performance, business prospects, growth and operating strategies, and similar matters, and those that include the words "could," "should," "believes," "anticipates," "expects" and "estimates" or similar expressions constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. For those statements, Mohawk claims the protection of the safe harbor for forward-looking statements

contained in the Private Securities Litigation Reform Act of 1995. There can be no assurance that the forward-looking statements will be accurate because they are based on many assumptions, which involve risks and uncertainties. The following important factors could cause future results to differ: changes in economic or industry conditions; competition; inflation and deflation in raw material prices and other input costs; inflation and deflation in consumer markets; energy costs and supply; timing and level of capital expenditures; timing and implementation of price increases for the Company's products; impairment charges; ability to identify attractive acquisition targets; ability to successfully complete and integrate acquisitions; international operations; changes in foreign exchange rates; introduction of new products; rationalization of operations; tax, product and other claims; litigation; and other risks identified in Mohawk's SEC reports and public announcements.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of March 31, 2018, approximately 42% of the Company's debt portfolio was comprised of fixed-rate debt and 58% was floating-rate debt. A 1.0 percentage point increase in the interest rate of the floating-rate debt would have resulted in an increase in interest expense of \$4.3 million for the three months ended March 31, 2018. There have been no significant changes to the Company's exposure to market risk as disclosed in the Company's 2017 Annual Report filed on Form 10-K.

Item 4. Controls and Procedures

Based on an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended), which have been designed to provide reasonable assurance that such controls and procedures will meet their objectives, as of the end of the period covered by this report, the Company's Chief Executive Officer and Chief Financial Officer have concluded that such controls and procedures were effective at a reasonable assurance level for the period covered by this report.

There were no changes in the Company's internal control over financial reporting that occurred during the period covered by this report that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting other than the Company adopted ASC 606, Revenue from Contracts with Customers on January 1, 2018, and the Company implemented new controls and processes to meet the requirements of the standard.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in litigation from time to time in the regular course of its business. Except as noted below, there are no material legal proceedings pending or known by the Company to be contemplated to which the Company is a party or to which any of its property is subject.

Alabama Municipal Litigation

In September 2016, the Water Works and Sewer Board of the City of Gadsden, Alabama (the “Gadsden Water Board”) filed an individual complaint in the Circuit Court of Etowah County, Alabama against certain manufacturers, suppliers, and users of chemicals containing perfluorinated compounds, including the Company. On October 26, 2016, the defendants removed the case to the United States District Court for the Northern District of Alabama, Middle Division, alleging diversity of citizenship and fraudulent joinder. The Gadsden Water Board filed a motion to remand the case back to the state court, and the defendants opposed the Gadsden Water Board’s motion. The federal court granted Gadsden Water Board's motion for remand. On October 24, 2017, the Company appealed the federal court's determination that co-defendant Industrial Chemicals, Inc. (“ICI”) was properly joined as a party to the case. On February 22, 2018, the Court of Appeals dismissed the appeal for lack of jurisdiction. ICI's presence in the case deprives the federal court of jurisdiction over the case.

In May, 2017, the Water Works and Sewer Board of the Town of Centre, Alabama (the “Centre Water Board”) filed a very similar complaint to the Gadsden Water Board complaint in the Circuit Court of Cherokee County. On June 19, 2017, the defendants removed this case to the United States District Court for the Northern District of Alabama, Middle Division, again alleging diversity of citizenship and fraudulent joinder. The Centre Water Board filed a motion to remand the case back to state court, and the defendants opposed the Centre Water Board’s motion. The federal court granted Centre Water Board's motion for remand. On December 6, 2017, the Company appealed the federal court's determination that co-defendant ICI was properly joined as a party to that case as well. On January 31, 2018, the Court of Appeals dismissed the appeal for lack of jurisdiction. ICI's presence in the case deprives the federal court of jurisdiction over the case.

The Company has never manufactured perfluorinated compounds but purchased them for use in the manufacture of its carpets prior to 2007. The Gadsden and Centre Water Boards are not alleging that chemical levels in the Company’s wastewater discharge exceeded legal limits. Instead, the Gadsden and Centre Water Boards are seeking lost profits based on allegations that their customers decreased water purchases, as well as reimbursement for the cost of a filter and punitive damages.

Belgian Tax Matter

In January 2012, the Company received a €23.8 million assessment from the Belgian tax authority related to its year ended December 31, 2008, asserting that the Company had understated its Belgian taxable income for that year. The Company filed a formal protest in the first quarter of 2012 refuting the Belgian tax authority's position. The Belgian tax authority set aside the assessment in the third quarter of 2012 and refunded all related deposits, including interest income of €1.6 million earned on such deposits. However, on October 23, 2012, the Belgian tax authority notified the Company of its intent to increase the Company's taxable income for the year ended December 31, 2008 under a revised theory. On December 28, 2012, the Belgian tax authority issued assessments for the years ended December 31, 2005 and December 31, 2009, in the amounts of €46.1 million and €35.6 million, respectively, including penalties, but excluding interest. The Company filed a formal protest during the first quarter of 2013 relating to the new assessments. In September 2013, the Belgian tax authority denied the Company's protests, and the Company has

brought these two years before the Court of First Appeal in Bruges. In December 2013, the Belgian tax authority issued additional assessments related to the years ended December 31, 2006, 2007, and 2010, in the amounts of €38.8 million, €39.6 million, and €43.1 million, respectively, including penalties, but excluding interest. The Company filed formal protests during the first quarter of 2014, refuting the Belgian tax authority's position for each of the years assessed. In the quarter ended June 28, 2014, the Company received a formal assessment for the year ended December 31, 2008, totaling €30.1 million, against which the Company also submitted its formal protest. All 4 additional years have been brought before the Court of First Appeal in November 2014. In January of 2015, the Company met with the Court of First Appeal in Bruges, Belgium and agreed with the Belgium tax authorities to consolidate and argue the issues regarding the years 2005 and 2009, and apply the ruling to all of the open years (to the extent there are no additional facts/procedural arguments in the other years). In May 2017, the statute of limitation was extended to include 2011.

On January 27, 2016, the Court of First Appeal in Bruges, Belgium ruled in favor of the Company with respect to the calendar years ending December 31, 2005 and December 31, 2009. On March 9, 2016, the Belgian tax authority lodged its Notification of Appeal with the Ghent Court of Appeal.

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The Company disagrees with the views of the Belgian tax authority on this matter and will persist in its vigorous defense. Nevertheless, on May 24, 2016, the tax collector representing the Belgian tax authorities imposed a lien on the Company's properties in Wielsbeke (Ooigemstraat and Breestraat), Oostrozebeke (Ingelmunstersteenweg) and Desselgem (Waregemstraat) included in the Flooring ROW segment. The purpose of the lien is to provide security for payment should the Belgian tax authority prevail on its appeal. The lien does not interfere with the Company's operations at these properties.

General

The Company believes that adequate provisions for resolution of all contingencies, claims and pending litigation have been made for probable losses that are reasonably estimable. These contingencies are subject to significant uncertainties and the Company is unable to estimate the amount or range of loss, if any, in excess of amounts accrued. The Company does not believe that the ultimate outcome of these actions will have a material adverse effect on its financial condition but could have a material adverse effect on its results of operations, cash flows or liquidity in a given quarter or year.

Item 1A. Risk Factors

There have been no material changes in the Company's risk factors from those disclosed in Part I, Item 1A to our Annual Report on Form 10-K for the year ended December 31, 2017. The risk factors disclosed in our Annual Report on Form 10-K, in addition to the other information set forth in this report, could materially affect our business, financial condition or results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95.1 to this quarterly report on Form 10-Q.

Item 5. Other Information

None.

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Item 6. Exhibits

| No. | Description |
|---------|--|
| 31.1 | <u>Certification Pursuant to Rule 13a-14(a).</u> |
| 31.2 | <u>Certification Pursuant to Rule 13a-14(a).</u> |
| 32.1 | <u>Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| 32.2 | <u>Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| 95.1 | <u>Mine Safety Disclosure pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act</u> |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |

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SIGNATURES

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

MOHAWK INDUSTRIES, INC.
(Registrant)

Dated: May 4, 2018 By: /s/ Jeffrey S. Lorberbaum
JEFFREY S. LORBERBAUM
Chairman and Chief Executive Officer
(principal executive officer)

Dated: May 4, 2018 By: /s/ Frank H. Boykin
FRANK H. BOYKIN
Chief Financial Officer
(principal financial officer)