

SiteOne Landscape Supply, Inc.
Form 10-Q
October 31, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 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: 001-37760
SiteOne Landscape Supply, Inc.

(Exact name of registrant as specified in its charter)

Delaware 46-4056061
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)

300 Colonial Center Parkway, Suite 600,
Roswell, Georgia 30076
(Address of principal executive offices) (Zip
Code)

(470) 277-7000
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act (Check One):

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Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

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

As of October 26, 2018, 40,835,109 shares of the registrant's common stock, \$0.01 par value, were outstanding.

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Regarding Forward-Looking Statements and Information

This Quarterly Report on Form 10-Q includes forward-looking statements and cautionary statements. Some of the forward-looking statements can be identified by the use of terms such as “may,” “intend,” “might,” “will,” “should,” “could,” “would,” “expect,” “believe,” “estimate,” “anticipate,” “predict,” “project,” “potential,” or the negative of these terms, and similar expressions. You should be aware that these forward-looking statements are subject to risks and uncertainties that are beyond our control. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made or to reflect the occurrence of anticipated or unanticipated events or circumstances. New factors emerge from time to time that may cause our business not to develop as we expect, and it is not possible for us to predict all of them. Factors that may cause actual results to differ materially from those expressed or implied by the forward-looking statements include, but are not limited to, the following:

- cyclical nature of residential and commercial construction markets;
- general economic and financial conditions;
- weather conditions, seasonality and availability of water to end-users;
- laws and government regulations applicable to our business that could negatively impact demand for our products;
- public perceptions that our products and services are not environmentally friendly;
- competitive industry pressures;
- product shortages and the loss of key suppliers;
- product price fluctuations;
- inventory management risks;
- ability to implement our business strategies and achieve our growth objectives;
- acquisition and integration risks;
- increased operating costs;
- risks associated with our large labor force;
- adverse credit and financial markets events and conditions;
- credit sale risks;
- retention of key personnel;
- performance of individual branches;
- environmental, health and safety laws and regulations;
- hazardous materials and related materials;
- construction defect and product liability claims;
- computer data processing systems;
- security of personal information about our customers;
- intellectual property and other proprietary rights;
- requirements of being a public company;
- risks related to our internal controls;
- the possibility of securities litigation;
- our substantial indebtedness and our ability to obtain financing in the future;
- increases in interest rates; and
- risks related to other factors discussed in this Quarterly Report on Form 10-Q.

You should read this Quarterly Report on Form 10-Q completely and with the understanding that actual future results may be materially different from expectations. All forward-looking statements made in this Quarterly Report on Form 10-Q are qualified by these cautionary statements. These forward-looking statements are made only as of the date of this Quarterly Report on Form 10-Q, and we do not undertake any obligation, other than as may be required by law, to update or revise any forward-looking or cautionary statements to reflect changes in assumptions, the occurrence of events, unanticipated or otherwise, changes in future operating results over time or otherwise.

Comparisons of results for current and any prior periods are not intended to express any future trends, or indications of future performance, unless expressed as such, and should only be viewed as historical data.

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements (Unaudited)

SiteOne Landscape Supply, Inc.
 Consolidated Balance Sheets (Unaudited)
 (In millions, except share and per share data)

	September 30, December 31,	
	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 23.4	\$ 16.7
Accounts receivable, net of allowance for doubtful accounts of \$5.8 and \$4.7, respectively	306.3	219.9
Inventory, net	426.5	338.3
Income tax receivable	11.6	2.7
Prepaid expenses and other current assets	45.3	24.3
Total current assets	813.1	601.9
Property and equipment, net (Note 5)	86.8	75.5
Goodwill (Note 6)	144.0	106.5
Intangible assets, net (Note 6)	154.3	112.8
Other assets	12.5	14.0
Total assets	\$ 1,210.7	\$ 910.7
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 197.4	\$ 124.1
Current portion of capital leases (Note 7)	5.6	4.9
Accrued compensation	38.8	40.1
Long term debt, current portion (Note 9)	4.5	3.5
Accrued liabilities	53.1	33.2
Total current liabilities	299.4	205.8
Other long-term liabilities	11.6	16.8
Capital leases, less current portion (Note 7)	9.6	6.8
Deferred tax liabilities	16.3	8.4
Long-term debt, less current portion (Note 9)	569.7	460.1
Total liabilities	906.6	697.9
Commitments and contingencies (Note 12)		
Stockholders' equity (Note 1):		
Common stock, par value \$0.01; 1,000,000,000 shares authorized; 40,824,246 and 39,977,181 shares issued, and 40,803,335 and 39,956,270 shares outstanding at September 30, 2018 and December 31, 2017, respectively	0.4	0.4
Additional paid-in capital	239.8	227.8
Retained earnings (accumulated deficit)	62.2	(15.1)
Accumulated other comprehensive income (loss)	1.7	(0.3)

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Total equity	304.1	212.8
Total liabilities and equity	\$ 1,210.7	\$ 910.7

See Notes to Consolidated Financial Statements (Unaudited).

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SiteOne Landscape Supply, Inc.
 Consolidated Statements of Operations (Unaudited)
 (In millions, except share and per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
Net sales	\$578.5	\$ 502.4	\$1,637.7	\$ 1,446.0
Cost of goods sold	387.5	342.1	1,108.3	982.4
Gross profit	191.0	160.3	529.4	463.6
Selling, general and administrative expenses	151.8	128.1	428.7	368.4
Other income	2.3	1.6	6.0	3.8
Operating income	41.5	33.8	106.7	99.0
Interest and other non-operating expenses, net	9.2	6.2	23.8	19.0
Net income before taxes	32.3	27.6	82.9	80.0
Income tax expense	2.4	10.7	6.9	29.4
Net income	29.9	16.9	76.0	50.6
Net income per common share:				
Basic	\$0.74	\$ 0.42	\$1.88	\$ 1.27
Diluted	\$0.70	\$ 0.41	\$1.78	\$ 1.23
Weighted average number of common shares outstanding:				
Basic	40,664,488	48,779,852	40,360,969	49,713,486
Diluted	42,746,803	51,373,375	42,650,088	51,247,133

See Notes to Consolidated Financial Statements (Unaudited).

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SiteOne Landscape Supply, Inc.
 Consolidated Statements of Comprehensive Income (Unaudited)
 (In millions)

	Three Months Ended September 30, 2018		September 1, October 30, 2017		Nine Months Ended September 30, 2018		September 1, October 30, 2017	
Net income	\$29.9	\$ 16.9	\$76.0	\$ 50.6				
Foreign currency translation adjustments	0.2	0.3	(0.1)	0.6				
Unrealized gain (loss) on interest rate swaps, net of taxes	0.4	(0.2)	2.1	(0.2)				
Comprehensive income	\$30.5	\$ 17.0	\$78.0	\$ 51.0				

See Notes to Consolidated Financial Statements (Unaudited).

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SiteOne Landscape Supply, Inc.
 Consolidated Statements of Cash Flows (Unaudited)
 (In millions)

	Nine Months Ended	
	September 30, 2018	October 1, 2017
Cash Flows from Operating Activities:		
Net income	\$76.0	\$ 50.6
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	15.7	12.9
Stock-based compensation	6.1	4.5
Amortization of software and intangible assets	22.6	18.8
Amortization of debt related costs	2.4	2.2
Loss on extinguishment of debt	0.7	0.1
(Gain) loss on sale of equipment	(0.3)	0.2
Other	(0.4)	(0.1)
Changes in operating assets and liabilities, net of the effects of acquisitions:		
Receivables	(67.7)	(73.5)
Inventory	(58.7)	(69.4)
Income tax receivable	(7.6)	(1.1)
Prepaid expenses and other assets	(13.3)	(19.0)
Accounts payable	57.6	54.6
Income tax payable	—	3.5
Accrued expenses and other liabilities	8.6	1.1
Net Cash Provided by (Used In) Operating Activities	\$41.7	\$ (14.6)
Cash Flows from Investing Activities:		
Purchases of property and equipment	(11.5)	(10.3)
Purchases of intangible assets	(4.6)	—
Acquisitions, net of cash acquired	(126.3)	(66.9)
Proceeds from the sale of property and equipment	2.6	0.3
Net Cash Used In Investing Activities	\$(139.8)	\$ (76.9)
Cash Flows from Financing Activities:		
Equity proceeds from common stock	6.2	1.3
Borrowings under term loan	447.4	299.5
Repayments under term loan	(350.3)	(299.4)
Borrowings on asset-based credit facility	336.6	319.6
Repayments on asset-based credit facility	(323.8)	(216.9)
Payments of debt issuance costs	(2.4)	(1.0)
Payments on capital lease obligations	(4.6)	(3.9)
Payments of acquisition related contingent obligations	(3.8)	—
Other financing activities	(0.4)	(0.1)
Net Cash Provided By Financing Activities	\$104.9	\$ 99.1
Effect of exchange rate on cash	(0.1)	0.2
Net Change In Cash	6.7	7.8

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Cash and cash equivalents:		
Beginning	16.7	16.3
Ending	\$23.4	\$24.1
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest	19.3	18.3
Cash paid during the year for income taxes	14.5	27.5
Supplemental Disclosures of Noncash Investing and Financing Information:		
Acquisition of property and equipment through capital leases	6.3	5.7

See Notes to Consolidated Financial Statements (Unaudited).

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SiteOne Landscape Supply, Inc.

Notes to Consolidated Financial Statements
(Unaudited)

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Note 1. Nature of Business and Significant Accounting Policies

Nature of Business

SiteOne Landscape Supply, Inc. (hereinafter collectively with all its consolidated subsidiaries referred to as the “Company”) is a wholesale distributor of irrigation supplies, fertilizer and control products (e.g., herbicides), landscape accessories, nursery goods, hardscapes (including paving, natural stone and blocks), outdoor lighting and ice melt products to green industry professionals. The Company currently has over 540 branches. Substantially all of the Company’s sales are to customers located in the United States of America (“U.S.”), with less than two percent of sales and total assets in Canada for all periods presented. Based on the nature of the Company’s products and customers’ business cycles, sales are significantly higher in the second and third quarters of each fiscal year.

Secondary Offerings

On April 25, 2017, the Company’s registration statement on Form S-1 (Registration No. 333-217327) relating to a secondary offering of its common stock was declared effective by the U.S. Securities and Exchange Commission (“SEC”). On May 1, 2017, the Company completed this secondary offering at a price to the public of \$47.50 per share. In connection with this secondary offering, certain of the Company’s stockholders sold an aggregate of 10,000,000 shares of common stock. The underwriters also exercised their option to purchase an additional 1,500,000 shares of common stock from the selling stockholders at the public offering price less the underwriting discounts and commissions. The selling stockholders received all of the net proceeds and bore all commissions and discounts from the sale of the Company’s common stock. The Company did not receive any proceeds from this secondary offering.

On July 20, 2017, the Company’s shelf registration statement on Form S-3 (Registration No. 333-219370) became effective, registering the offering and sale from time to time, by certain selling stockholders, of 5,437,502 shares of the Company’s common stock. On July 26, 2017, the selling stockholders completed a secondary offering of all such shares at a price to the underwriter of \$51.63 per share. The selling stockholders received all of the net proceeds and bore all commissions and discounts from the sale of the Company’s common stock. The Company did not receive any proceeds from this secondary offering.

Basis of Financial Statement Presentation

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) as applicable to interim financial reporting. In management’s opinion, the unaudited financial information for the interim periods presented includes all adjustments, consisting of normal recurring accruals necessary for a fair statement of the financial position, results of operations and cash flows. Certain information and disclosures normally included in our annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC. These interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K filed with SEC for the fiscal year ended December 31, 2017. The interim period unaudited financial results for the three and nine-month periods presented are not necessarily indicative of results to be expected for any other interim period or for the entire year.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and accompanying notes. Actual results could differ materially from these estimates.

Fiscal Year

The Company's fiscal year is a 52- or 53-week period ending on the Sunday nearest to December 31. The fiscal year ending December 30, 2018 and the fiscal year ended December 31, 2017 both include 52 weeks. The three months ended September 30, 2018 and October 1, 2017 both include 13 weeks. The nine months ended September 30, 2018 and October 1, 2017 both include 39 weeks.

Principles of Consolidation

The Company's consolidated financial statements include the assets and liabilities used in operating the Company's business, including entities in which the Company owns or controls more than 50% of the voting shares. All of the Company's subsidiaries are wholly owned. All intercompany balances and transactions have been eliminated in consolidation.

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Significant Accounting Policies

A description of the Company's significant accounting policies is included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Recently Issued and Adopted Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"), which simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. The Company adopted ASU 2016-09 when it became effective in the first quarter of fiscal year 2017 on a prospective basis and as such, the Company's prior year presentation has not changed. The primary impact of the adoption was the recognition of excess tax benefits as a component of Income tax expense on the Company's Consolidated Statements of Operations. Historically, these amounts were recorded as Additional paid-in capital in Stockholders' equity on the Company's Consolidated Balance Sheets. The Company also elected to adopt the cash flow presentation of the excess tax benefits prospectively commencing in the first quarter of 2017. The Company now presents excess tax benefits or tax deficiencies within operating cash flows versus financing activities on the Consolidated Statements of Cash Flows.

Another impact of the adoption is that the calculation of the effect of dilutive securities now excludes any derived excess tax benefits or deficiencies from assumed future proceeds, resulting in an increase in diluted weighted average shares outstanding. Additionally, the Company elected to account for forfeitures of share-based payments as they occur and there was no material financial impact as a result. None of the other provisions in ASU 2016-09 had a material impact on the Company's consolidated financial statements and related disclosures.

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory" ("ASU 2015-11"), which requires entities to measure inventory at the lower of cost or net realizable value rather than at the lower of cost or market. Net realizable value is defined as the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. The Company adopted ASU 2015-11 when it became effective in the first quarter of fiscal year 2017. The adoption of ASU 2015-11 did not have a material impact on the Company's consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"), which eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Rather, the measurement of a goodwill impairment charge will be based on the excess of a reporting unit's carrying value over its fair value. The Company adopted ASU 2017-04 in July 2017 with its annual goodwill impairment test. The adoption of ASU 2017-04 did not have a material impact on the Company's consolidated financial statements and related disclosures.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities" ("ASU 2017-12"), which seeks to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. Additionally, ASU 2017-12 makes certain targeted improvements to simplify the application of the hedge-accounting guidance in current U.S. GAAP based on the feedback received from preparers, auditors, users, and other stakeholders. ASU 2017-12 adds new disclosure requirements, amends existing disclosure requirements and removes the requirement for entities to disclose amounts of hedge ineffectiveness. In addition, an entity must now provide tabular disclosures about (i) the total amounts reported in the statement of financial performance for each income and expense line item that is affected by fair value or cash flow hedging, (ii) the effects of hedging on those line items and (iii) the carrying amounts and cumulative basis adjustments of items designated and qualifying as hedged items in fair value hedges. The Company adopted ASU 2017-12 in the third quarter of fiscal year 2017. The adoption of ASU 2017-12 did not have a material impact on the Company's consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"), which amends existing revenue recognition standards and establishes a new Accounting Standards Codification ("ASC")

Topic 606. The core principle of this amendment is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods or services. The Company adopted ASU 2014-09 and related amendments in the first quarter of fiscal year 2018 using the modified retrospective transition method. The Company concluded that it has substantially similar performance obligations under the amended guidance as compared with deliverables and units of account previously recognized. Additionally, the Company made policy elections within the amended standard that are consistent with its current accounting. The adoption of ASU 2014-09 resulted in additional revenue recognition disclosures (refer to Note 2), and has an immaterial impact on the timing of revenue recognition related to its customer loyalty rewards program. The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of

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retained earnings. The adoption of ASC 606 did not have a significant impact on the Company's consolidated financial statements. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The cumulative effect of the changes made to the Consolidated Balance Sheets as of January 1, 2018 for the adoption of ASU 2014-09 was as follows (in millions):

	Balance at December 31, 2017	Adjustments Due to ASU 2014-09	Balance at January 1, 2018
Balance Sheets			
Assets			
Prepaid expenses and other current assets	\$ 24.3	\$ 2.4	\$ 26.7
Liabilities			
Accrued liabilities	33.2	0.6	33.8
Deferred tax liabilities	8.4	0.5	8.9
Equity			
Accumulated deficit	(15.1)	1.3	(13.8)

In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on the Company's Consolidated Statements of Operations and Consolidated Balance Sheets was as follows (in millions):

	Three Months Ended September 30, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/ (Lower)
Statements of Operations			
Net sales	\$578.5	\$ 578.6	\$ (0.1)
Cost of goods sold	387.5	388.1	(0.6)
Income tax expense	2.4	2.3	0.1
Net income	29.9	29.5	0.4
	Nine Months Ended September 30, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/ (Lower)
Statements of Operations			
Net sales	\$1,637.7	\$1,637.5	\$ 0.2
Cost of goods sold	1,108.3	1,107.8	0.5
Income tax expense	6.9	7.0	(0.1)
Net income	76.0	76.2	(0.2)

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	September 30, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/Lower
Balance Sheets			
Assets			
Prepaid expenses and other current assets	\$45.3	\$ 43.5	\$ 1.8
Liabilities			
Accrued liabilities	53.1	52.9	0.2
Deferred tax liabilities	16.3	15.8	0.5
Equity			
Retained earnings	62.2	61.1	1.1

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”), to provide clarification on cash flow classification related to eight specific issues including debt prepayment or debt extinguishment costs and contingent consideration payments made after a business combination. The guidance in ASU 2016-15 required adoption using a retrospective transition method to each period presented. The Company adopted ASU 2016-15 when it became effective in the first quarter of fiscal year 2018. The adoption of ASU 2016-15 did not have a material impact on the Company’s consolidated financial statements and related disclosures.

In October 2016, the FASB issued ASU 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory” (“ASU 2016-16”), which amends existing guidance to require entities to recognize income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. ASU 2016-16 required adoption using a modified retrospective method. The Company adopted ASU 2016-16 when it became effective in the first quarter of fiscal year 2018. The adoption of ASU 2016-16 did not have a material impact on the Company’s consolidated financial statements and related disclosures.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash” (“ASU 2016-18”), which requires restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Transfers between cash and cash equivalents and restricted cash or restricted cash equivalents are not reported as cash flow activities in the statement of cash flows. ASU 2016-18 required adoption using a retrospective transition method. The Company adopted ASU 2016-18 when it became effective in the first quarter of fiscal year 2018. The adoption of ASU 2016-18 did not have a material impact on the Company’s consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business” (“ASU 2017-01”), to clarify the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions of assets or businesses. ASU 2017-01 provides a screen to determine when an integrated set of assets and activities (collectively a “set”) is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. If the screen is not met, the amendments in ASU 2017-01 (i) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (ii) remove the evaluation of whether a market participant could replace missing elements. ASU 2017-01 required adoption on a prospective basis. The Company adopted ASU 2017-01 when it became effective in the first quarter of fiscal year 2018. The adoption of ASU 2017-01 did not have a material impact on the Company’s consolidated financial statements and related disclosures.

In May 2017, the FASB issued ASU 2017-09, “Compensation-Stock Compensation (Topic 718) - Scope of Modification” (“ASU 2017-09”), which provides clarity and reduces both diversity in practice and cost and complexity when applying the guidance in Topic 718 when there are changes to the terms or conditions of a share-based payment award. The amendments in ASU 2017-09 provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 required adoption on a prospective basis. The Company adopted ASU 2017-09 when it became effective in the first

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quarter of fiscal year 2018. The adoption of ASU 2017-09 did not have a material impact on the Company's consolidated financial statements and related disclosures.

In March 2018, the FASB issued ASU 2018-05, "Income Taxes (Topic 740), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118" ("ASU 2018-05"), which was effective immediately. ASU 2018-05 adds various SEC paragraphs pursuant to the issuance of the December 2017 SEC Staff Accounting Bulletin No. 118 ("SAB 118"). The SEC issued SAB 118 to address concerns about reporting entities' ability to timely comply with the accounting requirements to recognize all of the effects of the Tax Cuts and Jobs Act (the "2017 Tax Act") in the period of enactment. SAB 118 allows disclosure that some or all of the income tax effects from the 2017 Tax Act are incomplete by the due date of the financial statements and requests entities provide a reasonable estimate if possible. The Company has accounted for the tax effects of the 2017 Tax Act under the guidance of SAB 118, on a provisional basis. The Company's accounting for certain income tax effects is incomplete, but it has determined reasonable estimates for those effects and has recorded provisional amounts in its consolidated financial statements as of September 30, 2018 and December 31, 2017.

Accounting Pronouncements Issued But Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)", amended by subsequent ASUs (collectively "ASC 842"), which supersedes the guidance for recognition, measurement, presentation and disclosures of lease arrangements. The amended standard requires recognition on the balance sheet for all leases with terms longer than 12 months as a lease liability and as a right-of-use asset. The lease liability is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and the right-of-use asset is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The Company plans to adopt ASC 842 commencing in the first quarter of fiscal year 2019, using a modified transition approach under which a cumulative-effect adjustment to retained earnings will be recognized on the date of adoption. As permitted by the guidance, prior comparative periods will not be adjusted under this method. In addition, the Company expects to elect the package of practical expedients available under the guidance that allows the Company not to reassess whether a contract contains a lease, lease classification or initial direct costs. The Company is assessing the provisions of this amended guidance and (i) has formed an implementation work team, (ii) is developing training for the various organizations that will be most affected, (iii) is evaluating software solutions and changes to processes and controls and (iv) is documenting and analyzing lease agreements subject to ASU 2016-02. The Company anticipates the adoption of this standard to result in a significant increase in lease-related assets and liabilities on its Consolidated Balance Sheets. The impact on the Company's Consolidated Statements of Operations is being evaluated. The impact of ASU 2016-02 is non-cash in nature and not anticipated to affect the Company's Consolidated Statements of Cash Flows.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"), which changes the way companies evaluate credit losses for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking "expected loss" model to evaluate impairment, potentially resulting in earlier recognition of allowances for losses. The new standard also requires enhanced disclosures, including the requirement to disclose the information used to track credit quality by year of origination for most financing receivables. ASU 2016-13 will be effective for the Company commencing in the first quarter of fiscal year 2020. The guidance must be applied using a cumulative-effect transition method. The Company is currently evaluating the amended guidance and the impact on its consolidated financial statements and related disclosures.

In February 2018, the FASB issued ASU 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU 2018-02"). The FASB

is providing ongoing guidance on certain accounting and tax effects of the legislation in the 2017 Tax Act, which was enacted in December 2017. ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the 2017 Tax Act. The amendments in ASU 2018-02 also require certain disclosures about stranded tax effects. ASU 2018-02 will be effective for the Company commencing in the first quarter of fiscal year 2019. The Company is currently evaluating the amended guidance and the impact on its consolidated financial statements and related disclosures.

In June 2018, the FASB issued ASU 2018-07, “Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting” (“ASU 2018-07”) which simplifies the accounting for nonemployee share-based payment transactions by expanding the scope of ASC Topic 718, Compensation - Stock Compensation, to include share-based payment transactions for acquiring goods and services from nonemployees. Under the new standard, most of the guidance on stock compensation payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. ASU 2018-07 will be effective for the Company commencing in the first quarter of fiscal year 2019. The Company is currently evaluating the amended guidance and the impact on its consolidated financial statements and related disclosures.

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In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement” (“ASU 2018-13”) which changes the fair value measurement disclosure requirements of ASC 820. The ASU adds new disclosure requirements, and eliminates and modifies existing disclosure requirements. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented. ASU 2018-13 will be effective for the Company commencing in the first quarter of fiscal year 2020. The Company is currently evaluating the amended guidance and the impact on its consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-15, “Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)” (“ASU 2018-15”) which amends ASC 350-402 to address a customer’s accounting for implementation costs incurred in a cloud computing arrangement (“CCA”) that is a service contract. ASU 2018-15 amends ASC 350 and clarifies that a customer should apply ASC 350-40 to determine which implementation costs should be capitalized in a CCA. The ASU does not expand on existing disclosure requirements except to require a description of the nature of hosting arrangements that are service contracts. Entities are permitted to apply either a retrospective or prospective transition approach to adopt the guidance. ASU 2018-15 will be effective for the Company commencing in the first quarter of fiscal year 2020. The Company is currently evaluating the amended guidance and the impact on its consolidated financial statements and related disclosures.

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Note 2. Revenue from Contracts with Customers

The Company recognizes revenue when control over a product or service is transferred to a customer. This transfer occurs primarily when goods are picked up by a customer at the branch or when goods are delivered to a customer location. Revenue is measured at the transaction price, which is based on the amount of consideration that the Company expects to receive in exchange for transferring the promised goods or services to the customer. The transaction price will include estimates of variable consideration, such as returns and provisions for doubtful accounts and sales incentives, to the extent it is probable that a significant reversal of revenue recognized will not occur. In all cases, when a sale is recorded by the Company, no significant uncertainty exists surrounding the purchaser's obligation to pay. The Company also has entered into agency agreements with certain of its suppliers whereby the Company operates as a sales agent of those suppliers. The suppliers retain title to their merchandise until it is sold by the Company and determine the prices at which the Company can sell their merchandise. The Company recognizes these agency sales on a net basis and records only the product margin as commission revenue within Net sales.

The following table presents Net sales disaggregated by product category:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
Landscaping products ^(a)	\$406.5	\$ 341.4	\$1,138.8	\$ 983.3
Agronomic and other products ^(b)	172.0	161.0	498.9	462.7
	\$578.5	\$ 502.4	\$1,637.7	\$1,446.0

(a) Landscaping products include irrigation, nursery, hardscapes, outdoor lighting and landscape accessories.

(b) Agronomic and other products include fertilizer, control products, ice melt, equipment and other products.

Remaining Performance Obligations

Remaining performance obligations related to ASC 606 represent the aggregate transaction price allocated to performance obligations with an original contract term greater than one year which are fully or partially unsatisfied at the end of the period. Remaining performance obligations include the outstanding points balance related to the customer loyalty reward program. The program allows enrolled customers to earn loyalty rewards on purchases to be used on future purchases, to pay for annual customer trips hosted by the Company, or to obtain gift cards to other third party retailers. Remaining performance obligations do not include revenue from contracts with customers with an original term of one year or less.

As of September 30, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations was approximately \$9.8 million. The Company expects to recognize revenue on the remaining performance obligations over the next 12 months.

Contract Balances

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, deferred revenue and billings in excess of revenue recognized in the Company's Consolidated Balance Sheets.

Contract liabilities

The Company often receives cash payments from customers in advance of the Company's performance of the customer loyalty reward program resulting in contract liabilities. These contract liabilities are classified as current in the Company's Consolidated Balance Sheets. As of September 30, 2018 and at the date of adoption of ASC 606, contract liabilities were \$9.8 million and \$7.3 million, respectively, and are included within accrued liabilities in the accompanying Consolidated Balance Sheets. The increase in the contract liability balance during the nine months

ended September 30, 2018 is primarily a result of cash payments received in advance of satisfying performance obligations, offset by \$2.3 million of revenue recognized during the period.

Contract liabilities are reported on the Company's Consolidated Balance Sheets on a contract-by-contract basis.

Note 3. Acquisitions

From time to time the Company enters into strategic acquisitions in an effort to better service existing customers and to attract new customers. The Company completed the following acquisitions for an aggregate purchase price of approximately \$127.2 million and

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\$66.8 million and deferred contingent consideration of approximately \$5.7 million and \$5.0 million for the nine months ended September 30, 2018 and October 1, 2017, respectively.

In July 2018, the Company acquired the assets and assumed the liabilities of Central Pump & Supply, Inc. d/b/a CentralPro (“CentralPro”). With 11 locations throughout Central Florida, CentralPro is a market leader in the distribution of irrigation, lighting and drainage products to landscape professionals.

In July 2018, the Company acquired the assets and assumed the liabilities of Stone Center LC (“Stone Center”). With one location in Manassas, Virginia, Stone Center is a market leader in the distribution of hardscapes and landscape supplies to landscape professionals.

In July 2018, the Company acquired the outstanding stock of Koppco, Inc. and Kirkwood Material Supply, Inc. (collectively “Kirkwood”). With eight locations in the St. Louis, Missouri metropolitan area, Kirkwood is a market leader in the distribution of hardscapes and nursery supplies to landscape professionals.

In July 2018, the Company acquired the outstanding stock of LandscapeXpress, Inc. (“Landscape Express”). With four locations in the Boston, Massachusetts metropolitan area, Landscape Express is a market leader in the distribution of hardscapes and landscape supplies to landscape professionals.

In June 2018, the Company acquired the assets and assumed the liabilities of Southwood Valley Turf II, Ltd, d/b/a All American Stone and Turf (“All American”). With one location in College Station, Texas, All American is a market leader in the distribution of hardscapes and landscape supplies to landscape professionals in East Texas.

In June 2018, the Company acquired the outstanding stock of Auto-Rain Supply Inc. (“Auto-Rain”). With five locations in Washington and Idaho, Auto-Rain is a market leader in the distribution of irrigation and related products to landscape professionals.

In May 2018, the Company acquired the assets and assumed the liabilities of Landscaper’s Choice Wholesale Nursery and Supply (“Landscaper’s Choice”). With two locations in Naples and Bonita Springs, Florida, Landscaper’s Choice is a market leader in wholesale nursery distribution.

In April 2018, the Company acquired the assets and assumed the liabilities of Northwest Marble & Terrazzo Co. (“Terrazzo”). With two locations in Bellevue and Marysville, Washington, Terrazzo is a market leader in the distribution of natural stone and hardscapes material to landscape professionals.

In March 2018, the Company acquired the assets and assumed the liabilities of the distribution locations of Village Nurseries Landscape Centers (“Village”). With three locations in Orange, Huntington Beach and Sacramento, California, Village is a market leader in wholesale nursery distribution.

In February 2018, the Company acquired the outstanding stock of Atlantic Irrigation Specialties, Inc. and the limited liability company interests of Atlantic Irrigation South, LLC (collectively, “Atlantic”). With 33 locations in 12 states within the Eastern U.S. and two provinces in Eastern Canada, Atlantic is a market leader in the distribution of irrigation, lighting, drainage, and landscaping equipment to green industry professionals.

In January 2018, the Company acquired the assets and assumed the liabilities of Pete Rose, Inc. (“Pete Rose”). With one location in Richmond, Virginia, Pete Rose is a market leader in the distribution of natural stone and hardscapes material to landscape professionals.

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In September 2017, the Company acquired the assets and assumed the liabilities of Marshall Stone, Inc. and Davis Supply, LLC (collectively, “Marshall Stone”). With two locations in Greensboro, North Carolina and Roanoke, Virginia, Marshall Stone is a market leader in the distribution of natural stone and hardscape materials to landscape professionals.

In August 2017, the Company acquired the assets and assumed the liabilities of Bondaze Enterprises, Inc., a California corporation doing business as South Coast Supply (“South Coast Supply”). With two locations in Orange County, California, South Coast Supply is a market leader in the distribution of hardscape, natural stone and related products to landscape professionals.

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In May 2017, the Company acquired the assets and assumed the liabilities of Evergreen Partners of Raleigh, LLC, Evergreen Partners of Myrtle Beach, LLC, and Evergreen Logistics, LLC (collectively, “Evergreen”). With two locations in Raleigh, North Carolina and Myrtle Beach, South Carolina, Evergreen is a market leader in the distribution of nursery supplies to landscape professionals.

In March 2017, the Company acquired the assets and assumed the liabilities of Angelo’s Supplies, Inc. and Angelo’s Wholesale Supplies, Inc. (collectively, “Angelo’s”). With two locations in Wixom and Farmington Hills, Michigan, both suburbs of Detroit, Angelo’s is a hardscapes and landscape supply distributor and has been a market leader since 1984.

In March 2017, the Company acquired all of the outstanding stock of American Builders Supply, Inc. and MasonryClub, Inc. and its subsidiary (collectively, “AB Supply”). With 10 locations in the greater Los Angeles, California area and two locations in Las Vegas, Nevada, AB Supply is a market leader in the distribution of hardscapes, natural stone and related products to landscape professionals.

In February 2017, the Company acquired the assets and assumed the liabilities of Stone Forest Materials, LLC (“Stone Forest”). With one location in Kennesaw, Georgia, Stone Forest is a market leader in the distribution of hardscapes products to landscape professionals.

In January 2017, the Company acquired the assets and assumed the liabilities of Aspen Valley Landscape Supply, Inc. (“Aspen Valley”). With three locations and headquartered in Homer Glen, Illinois, Aspen Valley is a market leader in the distribution of hardscapes and landscape supplies in the Chicago Metropolitan Area.

These transactions were accounted for by the acquisition method, and accordingly, the results of operations are included in the Company’s consolidated financial statements from their respective acquisition dates.

Note 4. Fair Value Measurement and Interest Rate Swaps

Fair value is defined as an exit price, representing an amount that would be received to sell an asset or the amount paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The inputs used to measure fair value are prioritized into the following three-tiered value hierarchy:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active or inputs, other than quoted prices in active markets, which are observable either directly or indirectly.

Level 3: Unobservable inputs for which there is little or no market data.

The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The classification of fair value measurement within the hierarchy is based upon the lowest level of input that is significant to the measurement.

The Company’s financial instruments consist of cash and cash equivalents, accounts receivables, forward-starting interest rate swap contracts and long-term debt. The variable interest rate on the long-term debt is reflective of current market borrowing rates. As such, the Company has determined that the carrying value of these financial instruments approximates fair value.

Interest Rate Swaps

The Company is subject to interest rate volatility with regard to existing and future issuances of debt. The Company utilizes interest rate swap contracts to reduce its exposure to fluctuations in variable interest rates for future interest payments on its syndicated senior term loan facility. In June 2017, the Company entered into two forward-starting interest rate swap contracts to convert the variable interest rate to a fixed interest rate on portions of the borrowings under the Term Loan Facility. The contracts are scheduled to become effective on March 11, 2019 and terminate on

June 11, 2021. The following table provides additional details related to the swap contracts (in millions, except fixed interest rate):

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Derivatives accounted for as hedges	Inception Date	Notional Amount	Fixed Interest Rate	Type of Hedge	Balance Sheet Classification	Fair Value of Hedge Assets	
						September 30, 2018	December 31, 2017
Forward-starting interest rate swap 1	June 30, 2017	\$ 58.0	2.1345%	Cash flow	Prepaid expenses and other current assets	\$ 0.2	\$ —
					Other assets	1.0	0.2
Forward-starting interest rate swap 2	June 30, 2017	\$ 116.0	2.1510%	Cash flow	Prepaid expenses and other current assets	0.4	—
					Other assets	1.9	0.4

For determining the fair value of the interest rate swap contracts, the Company uses significant observable market data or assumptions (Level 2 inputs) that market participants would use in pricing similar assets or liabilities, including assumptions about counterparty risk. The fair value estimates reflect an income approach based on the terms of the interest rate swap contracts and inputs corroborated by observable market data including interest rate curves. The Company recognizes the unrealized gains or unrealized losses as either assets or liabilities at fair value on its Consolidated Balance Sheets. As of September 30, 2018, the fair value of the forward-starting interest rate swaps in the amount of \$3.5 million was recorded in Prepaid expenses and other current assets and Other assets.

The Company will recognize any differences between the variable interest rate payments and the fixed interest rate settlements with the swap counterparties as an adjustment to interest expense over the life of the swaps. The Company has designated these swaps as cash flow hedges and records the changes in the estimated fair value of the swaps to Accumulated other comprehensive income (loss) on its Consolidated Balance Sheets. As of September 30, 2018, the fair value of the forward-starting interest rate swaps, net of taxes, in the amount of \$2.5 million was recorded in Accumulated other comprehensive income (loss). To the extent the interest rate swaps are determined to be ineffective, the Company recognizes the changes in the estimated fair value of the swaps in earnings. For the three and nine months ended September 30, 2018, there was no ineffectiveness recognized in earnings. The after-tax amount of unrealized gain on derivative instruments included in Accumulated other comprehensive income related to the forward-starting interest rate swap contracts maturing and expected to be reclassified to earnings during the next twelve months was \$0.5 million as of September 30, 2018. The ultimate amount recognized will vary based on fluctuations of interest rates through the maturity dates.

Failure of the swap counterparties to make payments would result in the loss of any potential benefit to the Company under the swap agreements. In this case, the Company would still be obligated to pay the variable interest payments underlying the debt agreements. Additionally, failure of the swap counterparties would not eliminate the Company's obligation to continue to make payments under the existing swap agreements if it continues to be in a net pay position.

Note 5. Property and Equipment, Net

Property and equipment consisted of the following (in millions):

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	September 30, December 31,	
	2018	2017
Land	\$ 12.7	\$ 14.5
Buildings and leasehold improvements:		
Buildings	8.9	8.6
Leasehold improvements	18.6	17.0
Branch equipment	33.9	24.8
Office furniture and fixtures and vehicles:		
Office furniture and fixtures	16.9	14.6
Vehicles	55.7	44.2
Tooling	0.1	0.1
Construction in progress	3.6	3.0
Total property and equipment, gross	150.4	126.8
Less: accumulated depreciation	63.6	51.3
Total property and equipment, net	\$ 86.8	\$ 75.5

Depreciation expense was approximately \$5.7 million and \$15.7 million for the three and nine months ended September 30, 2018, and \$4.7 million and \$12.9 million for the three and nine months ended October 1, 2017, respectively.

Table of ContentsNote 6. Goodwill and Intangible Assets, Net
Goodwill

Changes in the carrying amount of goodwill were as follows (in millions):

	January 1, 2018
	to
	September 30, 2018
Beginning balance	\$ 106.5
Goodwill acquired	37.3
Goodwill adjusted	0.2
Ending balance	\$ 144.0

Additions to goodwill during the nine months ended September 30, 2018 related to the acquisitions completed in 2018 as described in Note 3.

Intangible Assets

Intangible assets include customer relationships, and trademarks and other intangibles. Intangible assets with finite useful lives are amortized on an accelerated method or a straight-line method of amortization over their estimated useful lives. An accelerated amortization method reflecting the pattern in which the asset will be consumed is utilized if that pattern can be reliably determined. If that pattern cannot be reliably determined, a straight-line amortization method is used. The Company considers the period of expected cash flows and underlying data used to measure the fair value of the intangible assets when selecting a useful life.

During the nine months ended September 30, 2018, the Company recorded \$62.5 million of intangible assets which related to customer relationships, trademarks and other as a result of the acquisitions completed in 2018 as described in Note 3.

The Company's customer relationship intangible assets will be amortized over a weighted-average useful life of 20 years. Trademarks and other intangible assets will be amortized over a weighted-average useful life of six years.

The following table summarizes the components of intangible assets (in millions, except weighted average remaining useful life):

	Weighted Average Remaining Useful Life (in Years)	September 30, 2018			December 31, 2017		
		Amount	Accumulated Amortization	Net	Amount	Accumulated Amortization	Net
Customer relationships	17.6	\$234.5	\$ 88.9	\$145.6	\$178.5	\$ 70.2	\$108.3
Trademarks and other	3.6	14.2	5.5	8.7	7.7	3.2	4.5
Total intangible assets		\$248.7	\$ 94.4	\$154.3	\$186.2	\$ 73.4	\$112.8

Amortization expense for intangible assets was approximately \$7.9 million and \$21.0 million for the three and nine months ended September 30, 2018, and \$6.0 million and \$17.6 million for the three and nine months ended October 1, 2017, respectively.

Total future amortization estimated as of September 30, 2018, is as follows (in millions):

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Fiscal year ending:	
2018 (remainder)	\$8.0
2019	28.8
2020	23.2
2021	19.1
2022	15.6
Thereafter	59.6
Total future amortization	\$ 154.3

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Note 7. Capital Leases

Capital leases, consisting of vehicle leases, included the following (in millions):

	September 30, 2018	December 31, 2017
Capital lease obligations with rates ranging from 2.0% to 6.5% with monthly payments of approximately \$0.5 million maturing through September 2023	\$ 15.2	\$ 11.7
Less: current maturities	5.6	4.9
Total capital leases, less current portion	\$ 9.6	\$ 6.8

Note 8. Employee Benefit and Stock Incentive Plans

The Company sponsors a defined contribution benefit plan for substantially all of its employees. The Company's contributions to the plan are based on a percentage of employee wages. The Company's contributions to the plan were approximately \$1.9 million and \$5.8 million for the three and nine months ended September 30, 2018, respectively, and \$1.5 million and \$5.0 million for the three and nine months ended October 1, 2017, respectively.

Prior to the adoption of the Omnibus Equity Incentive Plan (the "Omnibus Incentive Plan"), as described below, the Company offered to key employees the ability to purchase common shares of the Company under a stock incentive plan ("Stock Incentive Plan"), which commenced in May 2014 as approved by the stockholders. Common stock options ("options") were granted with the purchased shares at a predetermined number of options per purchased share. Prior to the public offering these shares were not transferrable except upon the employee's death, repurchased at the option of the Company or with the Company's consent.

The Company adopted the Omnibus Incentive Plan on April 28, 2016. Upon adoption of the Omnibus Incentive Plan, the Stock Incentive Plan terminated and no additional awards were made thereunder. However, awards previously granted under the Stock Incentive Plan were unaffected by the termination of the Stock Incentive Plan. Awards under the Omnibus Incentive Plan may be made in the form of stock options, which may be either incentive stock options or non-qualified stock options; stock purchase rights; restricted stock; restricted stock units ("RSUs"); performance shares; performance units; stock appreciation rights ("SARs"); dividend equivalents; deferred stock units ("DSUs"); and other stock-based awards. Any shares covered by an award, or any portion thereof, granted under the Omnibus Incentive Plan or Stock Incentive Plan that terminates, is forfeited, is repurchased, expires or lapses for any reason will again be available for the grant of awards. Additionally, any shares tendered or withheld to satisfy the grant or exercise price or tax withholding obligations pursuant to any award under the Omnibus Incentive Plan will again be available for issuance.

During the nine months ended September 30, 2018, the Company granted 283,407 options, 7,625 DSUs and 41,897 RSUs; in addition, 24,913 options and 1,195 RSUs were forfeited, and 10,866 RSUs and 7,529 DSUs were settled in common stock. The RSUs and options granted to employees vest over a four-year period at 25 percent per year. The DSUs granted to non-employee directors vest immediately but settlement is deferred until termination of the director's service on the board or until a change of control of the Company. Options and RSUs expire ten years after the date of grant. The compensation cost for options and RSUs is recognized on a straight-line basis over the requisite vesting period.

The fair value of each option award was estimated on the date of grant using the Black-Scholes options pricing model. The DSUs and RSUs have grant date fair values equal to the fair market value of the underlying stock on the date of grant. Share-based compensation expense is recognized in the financial statements based upon fair value on the date of grant.

The weighted-average grant-date fair value of options granted was \$24.15 per option and 828,670 options have been exercised during the nine months ended September 30, 2018.

The total stock option and DSU expense was \$1.5 million and \$5.1 million for the three and nine months ended September 30, 2018, and \$1.4 million and \$4.1 million for the three and nine months ended October 1, 2017, respectively. The unrecognized compensation cost from stock options and DSUs granted under the plan was \$11.3 million as of September 30, 2018. The unrecognized stock option and DSU related compensation is expected to be recognized over a weighted-average period of approximately 2.63 years.

The total RSU expense was \$0.4 million and \$1.0 million for the three and nine months ended September 30, 2018, and \$0.1 million and \$0.4 million for the three and nine months ended October 1, 2017, respectively. The unrecognized compensation cost from RSUs granted

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under the plan was \$4.0 million as of September 30, 2018. The unrecognized RSU related compensation is expected to be recognized over a weighted-average period of approximately 3.00 years.

Note 9. Long-Term Debt

Long-term debt was as follows (in millions):

	September 30, 2018	December 31, 2017
ABL facility	\$ 139.9	\$ 127.0
Term loan facility	446.2	349.1
Total gross long-term debt	586.1	476.1
Less: unamortized debt issuance costs and discounts on debt	(11.9)	(12.5)
Total debt	\$ 574.2	\$ 463.6
Less: current portion	(4.5)	(3.5)
Total long-term debt	\$ 569.7	\$ 460.1

ABL Facility

SiteOne Landscape Supply Holding, LLC (“Landscape Holding”) and SiteOne Landscape Supply, LLC (“Landscape,” and together with Landscape Holding, the “Borrowers”), each an indirect wholly-owned subsidiary of the Company, are parties to the credit agreement dated December 23, 2013 (as amended by the First Amendment to the Credit Agreement, dated June 13, 2014, the Second Amendment to the Credit Agreement, dated January 26, 2015, the Third Amendment to the Credit Agreement, dated February 13, 2015, and the Fourth Amendment to the Credit Agreement, dated October 20, 2015, the “ABL Credit Agreement”) providing for an asset-based credit facility (the “ABL Facility”) of up to \$325.0 million, subject to borrowing base availability. The final maturity date of the ABL Facility is October 20, 2020. The ABL Facility is secured by a first lien on the inventory and receivables of the Borrowers. The ABL Facility is guaranteed by SiteOne Landscape Supply Bidco, Inc. (“Bidco”), an indirect wholly-owned subsidiary of the Company, and each direct and indirect wholly-owned U.S. restricted subsidiary of Landscape. The availability under the ABL Facility was \$180.7 million and \$162.0 million as of September 30, 2018 and December 31, 2017, respectively. Availability is determined using borrowing base calculations of eligible inventory and receivable balances less the current outstanding ABL Facility and letters of credit balances.

On May 24, 2017, the Company entered into the Omnibus Amendment (the “Omnibus Amendment”) which amends, among other things, the ABL Credit Agreement, in order to, among other things, update certain provisions relating to secured cash management and hedging obligations.

The interest rate on the ABL Facility is LIBOR plus an applicable margin ranging from 1.25% to 2.00% or an alternate base rate for U.S. denominated borrowings plus an applicable margin ranging from 0.25% to 1.00%. The interest rates on outstanding balances range from 4.25% to 6.25% and 3.25% to 3.32% as of September 30, 2018 and December 31, 2017, respectively. Additionally, the Borrowers paid a commitment fee of 0.250% and 0.250% on the unfunded amount as of September 30, 2018 and December 31, 2017, respectively.

The ABL Facility is subject to mandatory prepayments if the outstanding loans and letters of credit exceed either the aggregate revolving commitments or the current borrowing base, in an amount equal to such excess. Additionally, the ABL Facility is subject to various covenants requiring minimum financial ratios and additional borrowings may be limited by these financial ratios. Failure to meet any of these covenants could result in an event of default under these agreements. If an event of default occurs the lenders could elect to declare all amounts outstanding under these agreements to be immediately due and payable, enforce their interest in collateral pledged under the agreement, or restrict the Borrowers’ ability to obtain additional borrowings under these agreements.

The ABL Facility contains customary representations and warranties and customary affirmative and negative covenants. The negative covenants consist of the following: fundamental changes, dividends and distributions,

acquisitions, collateral, payments and modifications of restricted indebtedness, negative pledge clauses, changes in line of business, currency, commodity and other hedging transactions, transactions with affiliates, investments, limitations on indebtedness and liens. The negative covenants are subject to the customary exceptions and also permit the payment of dividends and distributions, investments, permitted acquisitions and payments or redemptions of junior indebtedness upon satisfaction of a payment condition. As of September 30, 2018, the Company is in compliance with these covenants.

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Term Loan Facility

The Borrowers entered into a syndicated senior term loan facility dated April 29, 2016 in the amount of \$275.0 million, which was amended on November 23, 2016, May 24, 2017, December 12, 2017 and August 14, 2018 (the “Term Loan Facility”). The Term Loan Facility is guaranteed by Bidco and each direct and indirect wholly-owned U.S. restricted subsidiary of Landscape. The Term Loan Facility has a first lien on Property and equipment, Intangibles, and equity interests of Landscape, and a second lien on ABL Facility assets. In connection with the amendment on August 14, 2018, the final maturity date of the Term Loan Facility was extended to October 29, 2024.

Term Loan Facility Amendments

On November 23, 2016, the Company amended the Term Loan Facility (the “First Amendment”) to, among other things, (i) add an additional credit facility under the Term Loan Facility consisting of additional term loans (the “Tranche B Term Loans”) in an aggregate principal amount of \$273.6 million and (ii) increase the aggregate principal amount of Tranche B Term Loans under the Term Loan Facility to \$298.6 million pursuant to an increase supplement. Proceeds of the Tranche B Term Loans were used to, among other things, (i) repay in full the term loans outstanding under the Term Loan Facility immediately prior to the effectiveness of the First Amendment and (ii) repay \$21.0 million of borrowings outstanding under the ABL Facility.

On May 24, 2017, the Company amended the Term Loan Facility (the “Second Amendment”) to, among other things, add an additional credit facility under the Term Loan Facility consisting of additional term loans (the “Tranche C Term Loans”) in an aggregate principal amount of \$299.5 million. Proceeds of the Tranche C Term Loans were used to, among other things, repay in full the Tranche B Term Loans outstanding under the Term Loan Facility immediately prior to effectiveness of the Second Amendment and pay fees and expenses associated with the transaction.

On December 12, 2017, the Company amended the Term Loan Facility (the “Third Amendment”) to, among other things, (i) add an additional credit facility under the Term Loan Facility consisting of additional term loans (the “Tranche D Term Loans”) in an aggregate principal amount of \$298.0 million and (ii) increase the aggregate principal amount of Tranche D Term Loans under the Term Loan Facility to \$350.0 million. Proceeds of the Tranche D Term Loans were used to, among other things, (i) repay in full the Tranche C Term Loans and (ii) repay approximately \$50.7 million of borrowings outstanding under the ABL Facility.

On August 14, 2018, the Company amended the Term Loan Facility (the “Fourth Amendment”) to, among other things, (i) add an additional credit facility under the Term Loan Facility consisting of additional term loans (the “Tranche E Term Loans”) in an aggregate principal amount of \$347.4 million and (ii) increase the aggregate principal amount of Tranche E Term Loans under the Term Loan Facility to \$447.4 million. Proceeds of the Tranche E Term Loans were used to, among other things, (i) repay in full the Tranche D Term Loans and (ii) repay approximately \$96.8 million of borrowings outstanding under the ABL Facility.

The Tranche E Term Loans bear interest, at Landscape Holding’s option, at either (i) an adjusted LIBOR rate (as defined in the Term Loan Facility) plus an applicable margin equal to 2.75% or (ii) an alternative base rate plus an applicable margin equal to 1.75%. The other terms of the Tranche E Term Loans are generally the same as the terms applicable to the previously existing term loans under the Term Loan Facility, provided that certain terms of the Term Loan Facility were modified by the Fourth Amendment. The interest rate on the outstanding balance was 4.89% at September 30, 2018.

The Term Loan Facility contains customary representations and warranties and customary affirmative and negative covenants. The negative covenants consist of the following: limitations on indebtedness, restricted payments, restrictive agreements, sales of assets and subsidiary stock, transactions with affiliates, liens, fundamental changes, amendments and lines of business. The negative covenants are subject to the customary exceptions. As of September 30, 2018, the Company is in compliance with these covenants.

The Term Loan Facility is also subject to annual mandatory prepayments in an amount equal to 50% of excess cash flow for the applicable fiscal year if the secured leverage ratio is equal to or greater than 3.00 to 1.00. During the three and nine months ended September 30, 2018, the Company incurred total interest expense of \$9.2 million and \$23.8 million, respectively. Of this total, \$7.3 million and \$19.6 million related to interest on the ABL Facility and the Term Loan Facility for the three and nine months ended September 30, 2018, respectively. The debt issuance costs and discounts are amortized as interest expense over the life of the debt. As a result of the Fourth Amendment of the Term Loan Facility, unamortized debt issuance costs and discounts in the amount of \$0.7 million and \$0.7 million were written off to expense for the three and nine months ended September 30, 2018, respectively, and new debt issuance costs of \$2.4 million and \$2.4 million were capitalized for three and nine months ended September 30, 2018, respectively. Amortization expense related to debt issuance costs and discounts were \$0.7 million and \$2.4 million, respectively.

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The remaining \$0.5 million and \$1.1 million interest expense for the three and nine months ended September 30, 2018, respectively, primarily related to interest attributable to capital leases.

During the three and nine months ended October 1, 2017, the Company incurred total interest expense of \$6.2 million and \$19.0 million, respectively. Of this total, \$5.4 million and \$16.4 million related to interest on the ABL Facility and Term Loan Facility for the three and nine months ended October 1, 2017, respectively. The debt issuance costs and discounts are amortized as interest expense over the life of the debt. As a result of the Second Amendment of the Term Loan Facility, unamortized debt issuance costs and discounts in the amount of \$0.0 million and \$0.1 million, were written off to expense for the three and nine months ended October 1, 2017, respectively, and new debt issuance costs of \$0.0 million and \$1.0 million, were capitalized for three and nine months ended October 1, 2017, respectively. Amortization expense related to debt issuance costs and discounts were \$0.7 million and \$2.2 million, respectively. The remaining \$0.1 million and \$0.3 million interest expense for the three and nine months ended October 1, 2017, respectively, primarily related to interest attributable to capital leases.

Note 10. Income Taxes

On December 22, 2017, the 2017 Tax Act was enacted. The 2017 Tax Act included a number of changes to existing U.S. tax laws that impacted the Company, most notably a reduction of the U.S. corporate income tax rate from 35% to 21%, effective as of January 1, 2018. The 2017 Tax Act also provided for a one-time transition tax on certain foreign earnings that were previously deferred, immediate expensing for certain assets placed into service after September 27, 2017, and a Global Intangible Low-Taxed Income (“GILTI”) provision which requires U.S. income inclusion of foreign subsidiary earnings in excess of an allowable return on the foreign subsidiary’s tangible assets.

As of December 31, 2017, the Company had not completed its accounting for the tax effects of the 2017 Tax Act. However, the Company made a reasonable estimate (provisional amount) of the effects on its existing deferred tax balances and one-time transition tax, and, as a result, recognized a provisional benefit of \$3.2 million for the year ended December 31, 2017. As of September 30, 2018, the Company has not changed any provisional amounts recognized in 2017. The Company has provisionally elected to account for GILTI tax in the period in which it is incurred, and therefore, has not provided any provisional deferred tax impacts of GILTI in its consolidated financial statements for the nine months ended September 30, 2018.

For 2018, the Company is subject to several provisions of the 2017 Tax Act including computations under GILTI, Foreign-Derived Intangible Income (“FDII”), Base Erosion and Anti-Abuse Tax (“BEAT”) and the interest expense limitation rules. The Company was able to reasonably evaluate the impact of each provision of the 2017 Tax Act on its effective tax rate for the nine months ended September 30, 2018. For its GILTI computation, the Company recorded a provisional estimate in the effective tax rate for the nine months ended September 30, 2018. For the FDII, BEAT and interest expense limitation computations, the Company has not recorded a provisional estimate in its effective tax rate for the nine months ended September 30, 2018, as the Company does not expect these provisions will apply in 2018. The Company expects to continue to refine its provisional estimates for its computations of the GILTI, FDII, BEAT and interest expense limitation rules as it gathers additional information.

The Company’s effective tax rate was approximately 8.3% for the nine months ended September 30, 2018 and 36.8% for the nine months ended October 1, 2017. The decrease in the effective rate was due primarily to the reduction of the U.S. corporate income tax rate from 35% to 21% as a result of the 2017 Tax Act, and an increase in the amount of excess tax benefits recognized as a component of Income tax expense in the Company’s Consolidated Statements of Operations. The Company recognized excess tax benefits of \$15.3 million for the nine months ended September 30, 2018 and \$2.5 million for the nine months ended October 1, 2017. The Company’s effective tax rate differs from its statutory rate based on a variety of factors, including overall profitability, the geographical mix of income taxes and the related tax rates in the jurisdictions in which it operates.

In accordance with the provisions of ASC Topic 740, Income Taxes, the Company provides a valuation allowance against deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The assessment considers all available positive and negative evidence and is measured quarterly. The Company maintains a valuation allowance against certain state deferred tax assets where sufficient negative evidence exists to require a valuation allowance. During the nine months ended September 30, 2018 and October 1, 2017, the Company recorded no material increases or decreases to the valuation allowance against deferred tax assets.

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Note 11. Related Party Transactions

In December 2013, CD&R Landscapes Holdings, L.P. (the “CD&R Investor”), an affiliate of Clayton Dubilier & Rice, LLC (“CD&R”), acquired a majority stake in the Company (the “CD&R Acquisition”). Prior to the CD&R Acquisition, Deere & Company (“Deere”) was the sole owner of the Company. Following consummation of the secondary offering on July 26, 2017 (as described in Note 1), to the Company’s knowledge, CD&R and Deere no longer have an ownership interest in the Company. Transactions with customers and entities that were under the ownership of CD&R and Deere through July 26, 2017 were considered related-party transactions and are discussed below.

The Company offers a financing plan to its customers through John Deere Financial, f.s.b. (“John Deere Financial”), a wholly-owned subsidiary of Deere. The Company paid John Deere Financial fees related to the financing offered of approximately \$0.3 million from January 2, 2017 through July 26, 2017.

TruGreen is a customer under ownership of CD&R and therefore became a related party at the time of the CD&R Acquisition. As provided above, TruGreen is no longer a related party as a result of the consummation of the secondary offering on July 26, 2017. Net sales included in the Company’s Consolidated Statement of Operations with TruGreen were \$0.4 million from July 3, 2017 through July 26, 2017 and \$4.3 million from January 2, 2017 through July 26, 2017.

Note 12. Commitments and Contingencies

Environmental liability: As part of the sale by LESCO, Inc. of its manufacturing assets in 2005, the Company retained the environmental liability associated with those assets. Remediation activities can vary substantially in duration and cost and it is difficult to develop precise estimates of future site remediation costs. The Company estimated in accrued liabilities the undiscounted cost of future remediation efforts to be approximately \$3.8 million and \$3.8 million as of September 30, 2018 and December 31, 2017, respectively. As part of the CD&R Acquisition, Deere agreed to pay the first \$2.5 million of the liability and cap the Company’s exposure to \$2.4 million. The Company has recorded an indemnification asset in Other Assets against the liability as a result of these actions of approximately \$1.4 million and \$1.4 million as of September 30, 2018 and December 31, 2017, respectively.

Letters of credit: As of September 30, 2018 and December 31, 2017, outstanding letters of credit were \$4.5 million and \$4.5 million, respectively. There were no amounts drawn on the letters of credit for either period presented.

Note 13. Earnings (Loss) Per Share

The Company computes basic earnings (loss) per share (“EPS”) by dividing Net income (loss) attributable to common shares by the weighted average number of common shares outstanding for the period. The Company includes vested DSUs in the basic weighted average number of common shares calculation. The Company’s computation of diluted EPS reflects the dilutive effects of potentially dilutive securities, which include in-the-money outstanding stock options and RSUs. Using the treasury stock method, the effect of dilutive securities includes these additional shares of common stock that would have been outstanding based on the assumption that these potentially dilutive securities had been issued. As discussed in Note 1, as a result of the adoption of ASU 2016-09, the calculation of the effect of dilutive securities now excludes any derived excess tax benefits or deficiencies from assumed future proceeds, resulting in an increase in diluted weighted average shares outstanding for the three and nine months ended September 30, 2018 and October 1, 2017.

RSUs and stock options with exercise prices that are higher than the average market prices of our common stock for the periods presented are excluded from the diluted EPS calculation because the effect is anti-dilutive.

For the three and nine months ended September 30, 2018 and October 1, 2017, the assumed exercises of a portion of the Company’s employee stock options, RSUs, DSUs were anti-dilutive and, therefore, the following potential shares of common stock were not included in the diluted earnings (loss) per common share calculation:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
Weighted average potential common shares excluded because anti-dilutive Employee stock options, RSUs and DSUs	284,074	18,548	238,707	6,632

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Certain of the Company's employee stock options, RSUs and DSUs were dilutive and resulted in additional potential common shares included in the Company's calculation of diluted earnings per common share of 2,082,315 and 2,289,119 for the three and nine months ended September 30, 2018, respectively, and 1,593,523 and 1,533,647 for three and nine months ended October 1, 2017, respectively.

Note 14. Subsequent Events

On October 19, 2018, the Company acquired the assets and assumed the liabilities of C&C Sand and Stone ("C&C"). With four locations in Colorado, C&C is a market leader in the distribution of hardscapes and landscape supplies to landscape professionals.

The acquisition is not material and is not expected to have a significant impact on the Company's consolidated financial statements.

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

The following information should be read in conjunction with the unaudited consolidated financial statements and related notes included in this report. The following discussion may contain forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include those factors discussed below and elsewhere in this report, particularly in “Forward-Looking Statements” and the section entitled “Risk Factors” included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Overview

SiteOne Landscape Supply, Inc. (collectively with all of its subsidiaries referred to in this Quarterly Report on Form 10-Q as “SiteOne,” the “Company,” “we,” “us” and “our”) indirectly owns 100% of the membership interest in SiteOne Landscape Supply Holding, LLC (“Landscape Holding”). Landscape Holding is the parent and sole owner of SiteOne Landscape Supply, LLC (“Landscape”).

We are the largest and only national wholesale distributor of landscape supplies in the United States and have a growing presence in Canada. Our customers are primarily residential and commercial landscape professionals who specialize in the design, installation and maintenance of lawns, gardens, golf courses and other outdoor spaces. We offer a comprehensive selection of irrigation supplies, fertilizer and control products (e.g., herbicides), landscape accessories, nursery goods, hardscapes (including paving, natural stone and blocks), outdoor lighting and ice melt products. We also provide value-added consultative services to complement our product offering and to help our customers operate and grow their businesses.

Presentation

Our financial statements included in this report have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”). We use a 52/53 week fiscal year with the fiscal year ending on the Sunday nearest to December 31 in each year. Our fiscal quarters end on the Sunday nearest to March 31, June 30 and September 30, respectively.

Key Business and Performance Metrics

We focus on a variety of indicators and key operating and financial metrics to monitor the financial condition and performance of our business. These metrics include:

Net sales. We generate net sales primarily through the sale of landscape supplies, including irrigation systems, fertilizer and control products, landscape accessories, nursery goods, hardscapes and outdoor lighting to our customers who are primarily landscape contractors serving the residential and commercial construction sectors. Our net sales include billings for freight and handling charges and commissions on the sale of control products that we sell as an agent. Net sales are presented net of any discounts, returns, customer rebates, and sales or other revenue-based tax.

Non-GAAP Organic Sales. In managing our business, we consider all growth, including the opening of new greenfield branches, to be organic growth unless it results from an acquisition. When we refer to Organic Sales growth, we include increases in growth from newly-opened greenfield branches and decreases in growth from closing existing branches but exclude increases in growth from acquired branches until they have been under our ownership for at least four full fiscal quarters at the start of the fiscal reporting period.

Non-GAAP Selling Days. Selling Days are defined as business days, excluding Saturdays, Sundays and holidays, that our branches are open during the year. Depending upon the location and the season, our branches may be open on Saturdays and Sundays; however for consistency, those days have been excluded from the calculation of Selling Days.

Non-GAAP Organic Daily Sales. We define Organic Daily Sales as Organic Sales divided by the number of Selling Days in the relevant reporting period. We believe Organic Sales growth and Organic Daily Sales growth are useful measures for evaluating our performance, as we may choose to open or close branches in any given market depending upon the needs of our customers or our strategic growth opportunities. See “Results of Operations—Quarterly Results of Operations Data” for a reconciliation of Organic Daily Sales to Net sales.

Cost of goods sold. Our cost of goods sold includes all inventory costs, such as purchase price paid to suppliers, net of any rebates received, as well as inbound freight and handling, and other costs associated with inventory. Our cost of goods sold

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excludes the cost to deliver the products to our customers through our branches, which is included in selling, general and administrative expenses. Cost of goods sold is recognized primarily using the first-in, first-out method of accounting for the inventory sold.

Gross profit and gross margin. We believe that gross profit and gross margin are useful for evaluating our operating performance. We define gross profit as net sales less cost of goods sold, exclusive of depreciation. We define gross margin as gross profit divided by net sales.

Selling, general and administrative expenses (operating expenses). Our operating expenses are primarily comprised of selling, general and administrative costs, which include personnel expenses (salaries, wages, employee benefits, payroll taxes, stock compensation and bonuses), rent, fuel, vehicle maintenance costs, insurance, utilities, repairs and maintenance and professional fees. Operating expenses also include depreciation and amortization.

Non-GAAP Adjusted EBITDA. In addition to the metrics discussed above, we believe that Adjusted EBITDA is useful for evaluating the operating performance and efficiency of our business. EBITDA represents our net income (loss) plus the sum of income tax (benefit), depreciation and amortization and interest expense, net of interest income. Adjusted EBITDA represents EBITDA as further adjusted for items such as stock-based compensation expense, (gain) loss on sale of assets not in the ordinary course of business, other non-cash items, financing fees, other fees and expenses related to acquisitions and other non-recurring (income) loss. See “Results of Operations—Quarterly Results of Operations Data” for more information about how we calculate EBITDA and Adjusted EBITDA and the limitations of those metrics.

Key Factors Affecting Our Operating Results

In addition to the metrics described above, a number of other important factors may affect our results of operations in any given period.

Weather Conditions and Seasonality

In a typical year, our operating results are impacted by seasonality. Historically, our net sales and net income have been higher in the second and third quarters of each fiscal year due to favorable weather and longer daylight conditions during these quarters. Our net sales have been significantly lower in the first and fourth quarters due to lower landscaping, irrigation and turf maintenance activities in these quarters, and we have historically incurred net losses in these quarters. Seasonal variations in operating results may also be significantly impacted by inclement weather conditions, such as snow storms and hurricanes, which not only impact the demand for certain products like fertilizer and ice melt but also may delay construction projects where our products are used.

Industry and Key Economic Conditions

Our business depends on demand from customers for landscape products and services. The landscape supply industry includes a significant amount of landscape products, such as irrigation systems, outdoor lighting, lawn care supplies, nursery goods and landscape accessories, for use in the construction of newly built homes, commercial buildings and recreational spaces. The landscape distribution industry has historically grown in line with rates of growth in residential housing and commercial building. The industry is also affected by trends in home prices, home sales and consumer spending. As general economic conditions improve or deteriorate, consumption of these products and services also tends to fluctuate. The landscape distribution industry also includes a significant amount of landscape products such as fertilizer, herbicides and ice melt for use in maintaining existing landscapes or facilities. The use of these products is also tied to general economic activity, but levels of sales are not as closely correlated to construction markets.

Popular Consumer Trends

Preferences in housing, lifestyle and environmental awareness can also impact the overall level of demand and mix for the products we offer. Examples of current trends we believe are important to our business include a heightened interest in professional landscape services inspired by the popularity of home and garden television shows and magazines; the increasingly popular concept of “outdoor living,” which has been a key driver of sales growth for our hardscapes and outdoor lighting products; and the social focus on eco-friendly products that promote water

conservation, energy efficiency and the adoption of “green” standards.

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Acquisitions

In addition to our organic growth, we continue to grow our business through acquisitions in an effort to better service our existing customers and to attract new customers. These acquisitions have allowed us to further broaden our product lines and extend our geographic reach and leadership positions in local markets. In accordance with U.S. GAAP, the results of the acquisitions we have completed are reflected in our financial statements from the date of acquisition forward. We incur transaction costs in connection with identifying and completing acquisitions, and ongoing integration costs as we integrate acquired companies and seek to achieve synergies. We completed the following acquisitions since the start of the 2017 fiscal year:

In July 2018, we acquired the assets and assumed the liabilities of Central Pump & Supply, Inc. d/b/a CentralPro (“CentralPro”). With 11 locations throughout Central Florida, CentralPro is a market leader in the distribution of irrigation, lighting and drainage products to landscape professionals.

In July 2018, we acquired the assets and assumed the liabilities of Stone Center LC (“Stone Center”). With one location in Manassas, Virginia, Stone Center is a market leader in the distribution of hardscapes and landscape supplies to landscape professionals.

- In July 2018, we acquired the outstanding stock of Koppco, Inc. and Kirkwood Material Supply, Inc. (collectively “Kirkwood”). With eight locations in the St. Louis, Missouri metropolitan area, Kirkwood is a market leader in the distribution of hardscapes and nursery supplies to landscape professionals.

In July 2018, we acquired the outstanding stock of LandscapeXpress, Inc. (“Landscape Express”). With four locations in the Boston, Massachusetts metropolitan area, Landscape Express is a market leader in the distribution of hardscapes and landscape supplies to landscape professionals.

- In June 2018, we acquired the assets and assumed the liabilities of Southwood Valley Turf II, Ltd, d/b/a All American Stone and Turf (“All American”). With one location in College Station, Texas, All American is a market leader in the distribution of hardscapes and landscape supplies to landscape professionals in East Texas.

In June 2018, we acquired the outstanding stock of Auto-Rain Supply Inc. (“Auto-Rain”). With five locations in Washington and Idaho, Auto-Rain is a market leader in the distribution of irrigation and related products to landscape professionals.

In May 2018, we acquired the assets and assumed the liabilities of Landscaper’s Choice Wholesale Nursery and Supply (“Landscaper’s Choice”). With two locations in Naples and Bonita Springs, Florida, Landscaper’s Choice is a market leader in wholesale nursery distribution.

In April 2018, we acquired the assets and assumed the liabilities of Northwest Marble & Terrazzo Co. (“Terrazzo”). With two locations in Bellevue and Marysville, Washington, Terrazzo is a market leader in the distribution of natural stone and hardscapes material to landscape professionals.

In March 2018, we acquired the assets and assumed the liabilities of the distribution locations of Village Nurseries Landscape Centers (“Village”). With three locations in Orange, Huntington Beach and Sacramento, California, Village is a market leader in wholesale nursery distribution.

In February 2018, we acquired the outstanding stock of Atlantic Irrigation Specialties, Inc. and the limited liability company interests of Atlantic Irrigation South, LLC (collectively, “Atlantic”). With 33 locations in 12 states within the Eastern U.S. and two provinces in Eastern Canada, Atlantic is a market leader in the distribution of irrigation, lighting, drainage, and landscaping equipment to green industry professionals.

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In January 2018, we acquired the assets and assumed the liabilities of Pete Rose, Inc. (“Pete Rose”). With one location in Richmond, Virginia, Pete Rose is a market leader in the distribution of natural stone and hardscapes material to landscape professionals.

In October 2017, we acquired the assets and assumed the liabilities of Harmony Gardens, Inc. (“Harmony Gardens”). With two locations in the metro Denver and Fort Collins, Colorado areas, Harmony Gardens is a leading wholesale nursery distributor in the state.

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In September 2017, we acquired the assets and assumed the liabilities of Marshall Stone, Inc. and Davis Supply, LLC (collectively, “Marshall Stone”). With two locations in Greensboro, North Carolina and Roanoke, Virginia, Marshall Stone is a market leader in the distribution of natural stone and hardscapes materials to landscape professionals.

In August 2017, we acquired the assets and assumed the liabilities of Bondaze Enterprises, Inc., a California corporation doing business as South Coast Supply (“South Coast Supply”). With two locations in Orange County, California, South Coast Supply is a market leader in the distribution of hardscapes, natural stone and related products to landscape professionals.

In May 2017, we acquired the assets and assumed the liabilities of Evergreen Partners of Raleigh, LLC, Evergreen Partners of Myrtle Beach, LLC, and Evergreen Logistics, LLC (collectively, “Evergreen”). With two locations in Raleigh, North Carolina and Myrtle Beach, South Carolina, Evergreen is a market leader in the distribution of nursery supplies to landscape professionals.

In March 2017, we acquired the assets and assumed the liabilities of Angelo’s Supplies, Inc. and Angelo’s Wholesale Supplies, Inc. (collectively, “Angelo’s”). With two locations in Wixom and Farmington Hills, Michigan, both suburbs of Detroit, Angelo’s is a hardscapes and landscape supply distributor and has been a market leader since 1984.

In March 2017, we acquired all of the outstanding stock of American Builders Supply, Inc. and MasonryClub, Inc. and its subsidiary (collectively, “AB Supply”). With 10 locations in the greater Los Angeles, California area and two locations in Las Vegas, Nevada, AB Supply is a market leader in the distribution of hardscapes, natural stone and related products to landscape professionals.

In February 2017, we acquired the assets and assumed the liabilities of Stone Forest Materials, LLC (“Stone Forest”). With one location in Kennesaw, Georgia, Stone Forest is a market leader in the distribution of hardscapes products to landscape professionals.

In January 2017, we acquired the assets and assumed the liabilities of Aspen Valley Landscape Supply, Inc. (“Aspen Valley”). With three locations and headquartered in Homer Glen, Illinois, Aspen Valley is a market leader in the distribution of hardscapes and landscape supplies in the Chicago Metropolitan Area.

Volume-Based Pricing

We generally procure our products through purchase orders rather than under long-term contracts with firm commitments. We work to develop strong relationships with a select group of suppliers that we target based on a number of factors, including brand and market recognition, price, quality, product support, service levels, delivery terms and their strategic positioning. We generally have annual supplier agreements, and while they typically do not provide for specific product pricing, many include volume-based financial incentives that we earn by meeting or exceeding target purchase volumes. Our ability to earn these volume-based incentives is an important factor in our financial results. In limited cases, we have entered into supply contracts with terms that exceed one year for the manufacture of our LESCO® branded fertilizer and some nursery stock and grass seed, which may require us to purchase products in the future.

Strategic Initiatives

We continue to undertake operational initiatives, utilizing our scale to improve our profitability, enhance supply chain efficiency, strengthen our pricing and category management capabilities, streamline and refine our marketing process and invest in more sophisticated information technology systems and data analytics. We are increasingly focusing on our procurement and supply chain management initiatives to reduce sourcing costs. We are also implementing new

inventory planning and stocking systems and evaluating ways to further improve the freight and logistics processes in an effort to reduce costs as well as improve our reliability and level of service. In addition, we have relaunched our website and rolled out our e-Commerce platform, which provides the convenience of an online sales channel, enhanced account management functionality and industry specific productivity tools for our customers. We also work closely with our local branches to improve sales, delivery and branch productivity.

Working Capital

In addition to affecting our net sales, fluctuations in prices of supplies tend to result in changes in our reported inventories, trade receivables and trade payables, even when our sales volumes and our rate of turnover of these working capital items remain

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relatively constant. Our business is characterized by a relatively high level of reported working capital, the effects of which can be compounded by changes in prices. Our working capital needs are exposed to these price fluctuations, as well as to fluctuations in our cost for transportation and distribution. We might not always be able to reflect these increases in our pricing. The strategic initiatives described above are designed to reduce our exposure to these fluctuations and maintain and improve our efficiency.

Results of Operations

In the following discussion of our results of operations, we make comparisons between the three and nine months ended September 30, 2018 and October 1, 2017.

(In millions)

Consolidated Statements of Operations

	Three Months Ended				Nine Months Ended			
	September 30, 2018		October 1, 2017		September 30, 2018		October 1, 2017	
Net sales	\$578.5	100.0%	\$502.4	100.0%	\$1,637.7	100.0%	\$1,446.0	100.0%
Cost of goods sold	387.5	67.0 %	342.1	68.1 %	1,108.3	67.7 %	982.4	67.9 %
Gross profit	191.0	33.0 %	160.3	31.9 %	529.4	32.3 %	463.6	32.1 %
Selling, general and administrative expenses	151.8	26.2 %	128.1	25.5 %	428.7	26.2 %	368.4	25.5 %
Other income	2.3	0.4 %	1.6	0.3 %	6.0	0.4 %	3.8	0.3 %
Operating income	41.5	7.2 %	33.8	6.7 %	106.7	6.5 %	99.0	6.8 %
Interest and other non-operating expenses, net	9.2	1.6 %	6.2	1.2 %	23.8	1.5 %	19.0	1.3 %
Income tax expense	2.4	0.4 %	10.7	2.1 %	6.9	0.4 %	29.4	2.0 %
Net income	\$29.9	5.2 %	\$16.9	3.4 %	\$76.0	4.6 %	\$50.6	3.5 %

Net sales

Net sales increased 15% to \$578.5 million for the three months ended September 30, 2018 compared to \$502.4 million for the three months ended October 1, 2017, and increased 13% to \$1,637.7 million for the nine months ended September 30, 2018 compared to \$1,446.0 million for the nine months ended October 1, 2017. Organic Daily Sales increased 5% in the third quarter of 2018 and 4% for the nine months ended September 30, 2018. Organic Daily Sales for landscaping products (irrigation, nursery, hardscapes, outdoor lighting and landscape accessories) grew 4% in the third quarter of 2018 and 5% for the nine months ended September 30, 2018 as the Company continued to benefit from growth in both repair and upgrade and construction end markets. Organic Daily Sales for agronomic products (fertilizer, control product, ice melt and equipment) grew 6% in the third quarter of 2018 and 5% for the nine months ended September 30, 2018. Organic Daily Sales for agronomic products for the quarter benefited from a stronger economy and price increases in response to cost inflation. In addition, Organic Daily Sales for agronomic products for the nine months ended September 30, 2018 also benefited from stronger sales of ice melt. Acquired sales growth was \$53.9 million, or 11% of the third quarter 2018 Net sales growth and \$130.2 million, or 9% of the Net sales growth for the nine months ended September 30, 2018.

Cost of goods sold

Cost of goods sold increased 13% to \$387.5 million for the three months ended September 30, 2018 compared to \$342.1 million for the three months ended October 1, 2017, and increased 13% to \$1,108.3 million for the nine months ended September 30, 2018 compared to \$982.4 million for the nine months ended October 1, 2017. The increase in Cost of goods sold for the third quarter of 2018 and the first nine months of 2018 was primarily attributable to Net sales growth, including acquisitions and cost inflation.

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Gross profit and gross margin

Gross profit increased 19% to \$191.0 million for the three months ended September 30, 2018 compared to \$160.3 million for the three months ended October 1, 2017, and increased 14% to \$529.4 million for the nine months ended September 30, 2018 compared to \$463.6 million for the nine months ended October 1, 2017. Gross profit growth for the third quarter of 2018 was driven by Net sales growth, including acquisitions. Gross margin increased 110 basis points to 33.0% for the third quarter of 2018 compared to 31.9% for the same period of 2017. The improvement in gross margin was due to increased pricing and margin contribution from acquisitions, partially offset by higher material costs including freight. For the nine months ended September 30, 2018, gross margin increased 20 basis points to 32.3% as compared to 32.1% for the nine months ended October 1, 2017. The increase in gross margin was primarily due to our category management initiatives and margin contribution from acquisitions.

Selling, general and administrative expenses (operating expenses)

Operating expenses increased 19% to \$151.8 million for the three months ended September 30, 2018 compared to \$128.1 million for the three months ended October 1, 2017, and increased 16% to \$428.7 million for the nine months ended September 30, 2018 compared to \$368.4 million for the nine months ended October 1, 2017. The increase in both the third quarter and the first nine months of 2018 primarily reflected additional staff and operating expenses to support our growth both organically and through acquisitions. Operating expenses expressed as a percentage of Net sales increased to 26.2% both for the three and nine months ended September 30, 2018 compared to 25.5% for both the three and nine months ended October 1, 2017. The increase in operating expenses as a percentage of Net sales primarily reflected additional expense associated with our acquisitions and investments in strategic initiatives including e-Commerce and supply chain. Depreciation and amortization expense increased \$3.0 million to \$14.1 million for the three months ended September 30, 2018 compared to \$11.1 million for three months ended October 1, 2017, and increased \$6.6 million to \$38.3 million for the nine months ended September 30, 2018 compared to \$31.7 million for nine months ended October 1, 2017. The increase in depreciation and amortization in both the third quarter and the first nine months of 2018 was primarily due to our acquisitions.

Interest and other non-operating expenses, net

Interest and other non-operating expenses increased \$3.0 million to \$9.2 million for the three months ended September 30, 2018 compared to \$6.2 million for the three months ended October 1, 2017, and increased \$4.8 million to \$23.8 million for the nine months ended September 30, 2018 compared to \$19.0 million for nine months ended October 1, 2017. The increase in interest expense was primarily the result of a higher average outstanding debt balance and rising interest rates in both the third quarter and the first nine months of 2018 compared to the same periods of 2017.

Income tax expense

Income tax expense was \$2.4 million for the three months ended September 30, 2018 compared to \$10.7 million for the three months ended October 1, 2017. For the nine months ended September 30, 2018, income tax expense was \$6.9 million compared to \$29.4 million for the nine months ended October 1, 2017. The effective tax rate was 7.4% for the three months ended September 30, 2018 compared to 38.8% for the three months ended October 1, 2017. For the nine months ended September 30, 2018, the effective tax rate was 8.3% compared to 36.8% for the nine months ended October 1, 2017. The decrease in the effective rate was due primarily to the reduction of the U.S. corporate income tax rate from 35% to 21% as a result of the 2017 Tax Act, and an increase in the amount of excess tax benefits recognized as a component of Income tax expense in the Company's Consolidated Statements of Operations. Excess tax benefits of \$6.3 million were recognized for the three months ended September 30, 2018 compared to \$0.4 million for the three months ended October 1, 2017. For the nine months ended September 30, 2018, excess tax benefits of \$15.3 million were recognized compared to \$2.5 million for the nine months ended October 1, 2017.

Net income

Net income increased \$13.0 million to \$29.9 million for the three months ended September 30, 2018 compared to \$16.9 million for the three months ended October 1, 2017, and increased \$25.4 million to \$76.0 million for the nine months ended September 30, 2018 compared to \$50.6 million for nine months ended October 1, 2017. The increase in Net income for the third quarter and the first nine months of 2018 was attributable to the sales growth, both

organically and through acquisitions, and lower Income tax expense.

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Quarterly Results of Operations Data

The following tables set forth our net sales, cost of goods sold, gross profit, selling, general and administrative expenses, net income (loss) and Adjusted EBITDA data (including a reconciliation of Adjusted EBITDA to net income (loss)) for each of the most recent eight quarters in fiscal years 2018, 2017 and 2016. We have prepared the quarterly data on a basis that is consistent with the financial statements included in this report. In the opinion of management, the financial information reflects all necessary adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the data. This information is not a complete set of financial statements and should be read in conjunction with our financial statements and related notes included in this report. The results of historical periods are not necessarily indicative of the results of operations for a full year or any future period.

(In millions)

	2018			2017			2016		
	Qtr 3	Q2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	
Net sales	\$578.5	\$687.8	\$371.4	\$415.7	\$502.4	\$608.6	\$335.0	\$361.8	
Cost of goods sold	387.5	457.9	262.9	283.8	342.1	406.2	234.1	250.0	
Gross profit	191.0	229.9	108.5	131.9	160.3	202.4	100.9	111.8	
Selling, general and administrative expenses	151.8	145.2	131.7	133.8	128.1	126.6	113.7	116.2	
Other income	2.3	1.1	2.6	0.7	1.6	1.3	0.9	1.4	
Operating income (loss)	41.5	85.8	(20.6)	(1.2)	33.8	77.1	(11.9)	(3.0)	
Interest and other non-operating expenses	9.2	8.0	6.6	6.2	6.2	6.6	6.2	6.7	
Income tax (benefit) expense	2.4	14.7	(10.2)	(11.4)	10.7	26.3	(7.6)	(4.1)	
Net income (loss)	\$29.9	\$63.1	\$(17.0)	\$4.0	\$16.9	\$44.2	\$(10.5)	\$(5.6)	
Net income (loss) per common share:									
Basic	\$0.74	\$1.56	\$(0.43)	\$0.10	\$0.42	\$1.11	\$(0.26)	\$(0.14)	
Diluted	\$0.70	\$1.48	\$(0.43)	\$0.09	\$0.41	\$1.07	\$(0.26)	\$(0.14)	
Adjusted EBITDA ⁽¹⁾	\$60.0	\$103.0	\$(5.1)	\$15.3	\$48.4	\$92.3	\$1.2	\$11.2	
Net sales as a percentage of annual net sales				22.3	% 27.0	% 32.7	% 18.0	% 22.0	%
Gross profit as a percentage of annual gross profit				22.2	% 26.9	% 34.0	% 16.9	% 21.7	%
Adjusted EBITDA as a percentage of annual Adjusted EBITDA				9.7	% 30.8	% 58.7	% 0.8	% 8.3	%

In addition to our net income (loss) determined in accordance with U.S. GAAP, we present Adjusted EBITDA in this report to evaluate the operating performance and efficiency of our business. EBITDA represents our Net income (loss) plus the sum of Income tax (benefit), Depreciation and amortization and Interest expense, net of (1) interest income. Adjusted EBITDA is further adjusted for stock-based compensation expense, (gain) loss on sale of assets not in the ordinary course of business, other non-cash items, financing fees, other fees and expenses related to acquisitions and other non-recurring (income) loss. We believe that Adjusted EBITDA is an important supplemental measure of operating performance because:

- Adjusted EBITDA is used to test compliance with certain covenants under our long-term debt agreements;
- Adjusted EBITDA is frequently used by securities analysts, investors and other interested parties in their evaluation of companies, many of which present an Adjusted EBITDA measure when reporting their results;
- Adjusted EBITDA is helpful in highlighting operating trends, because it excludes the results of decisions that are outside the control of operating management and that can differ significantly from company to company depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate, age and

book depreciation of facilities and capital investments;

- we consider (gain) loss on the acquisition, disposal and impairment of assets as resulting from investing decisions rather than ongoing operations; and

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other significant non-recurring items, while periodically affecting our results, may vary significantly from period to period and have a disproportionate effect in a given period, which affects comparability of our results.

Adjusted EBITDA is not a measure of our liquidity or financial performance under U.S. GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with U.S. GAAP, or as an alternative to cash flow from operating activities as a measure of our liquidity. The use of Adjusted EBITDA instead of net income has limitations as an analytical tool. For example, this measure:

- does not reflect changes in, or cash requirements for, our working capital needs;
 - does not reflect our interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
 - does not reflect our income tax (benefit) expense or the cash requirements to pay our income taxes;
 - does not reflect historical cash expenditures or future requirements for capital expenditures or contractual commitments; and
 - although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and does not reflect any cash requirements for such replacements.
- Management compensates for these limitations by relying primarily on our U.S. GAAP results and by using Adjusted EBITDA only as a supplement to provide a more complete understanding of the factors and trends affecting the business than GAAP results alone. Because not all companies use identical calculations, our presentation of Adjusted EBITDA may not be comparable to other similarly titled measures of other companies limiting their usefulness as a comparative measure. The following table presents a reconciliation of Adjusted EBITDA to Net income (loss):

(In millions)

	2018			2017			2016	
	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4
Net income (loss)	\$29.9	\$63.1	\$(17.0)	\$4.0	\$16.9	\$44.2	\$(10.5)	\$(5.6)
Income tax (benefit) expense	2.4	14.7	(10.2)	(11.4)	10.7	26.3	(7.6)	(4.1)
Interest expense, net	9.2	8.0	6.6	6.2	6.2	6.6	6.2	6.7
Depreciation and amortization	14.1	12.5	11.7	11.4	11.1	10.8	9.8	9.6
EBITDA	55.6	98.3	(8.9)	10.2	44.9	87.9	(2.1)	6.6
Stock-based compensation ^(a)	1.9	2.1	2.1	1.4	1.5	1.6	1.4	1.3
(Gain) loss on sale of assets ^(b)	(0.3)	0.1	(0.1)	0.4	—	0.1	0.1	0.1
Financing fees ^(c)	0.7	—	—	0.2	0.4	1.1	—	1.1
Acquisitions and other adjustments ^(d)	2.1	2.5	1.8	3.1	1.6	1.6	1.8	2.1
Adjusted EBITDA ^(e)	\$60.0	\$103.0	\$(5.1)	\$15.3	\$48.4	\$92.3	\$1.2	\$11.2

(a) Represents stock-based compensation expense recorded during the period.

(b) Represents any gain or loss associated with the sale of assets not in the ordinary course of business.

(c) Represents fees associated with our debt refinancing and debt amendments, as well as fees incurred in connection with our secondary offerings.

(d) Represents professional fees, retention and severance payments, and performance bonuses related to historical acquisitions. Although we have incurred professional fees, retention and severance payments, and performance bonuses related to acquisitions in several historical periods and expect to incur such fees and payments for any future acquisitions, we cannot predict the timing or amount of any such fees or payments.

(e) Adjusted EBITDA excludes any earnings or loss of acquisitions prior to their respective acquisition dates for all periods presented.

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The following table presents a reconciliation of Organic Daily Sales to Net sales:

(In millions, except Selling Days)

	2018			2017		
	Qtr 3	Qtr 2	Qtr 1	Qtr 3	Qtr 2	Qtr 1
Net sales	\$578.5	\$687.8	\$371.4	\$502.4	\$608.6	\$335.0
Organic Sales	498.2	609.1	337.9	476.0	578.3	329.4
Acquisition contribution ^(a)	80.3	78.7	33.5	26.4	30.3	5.6
Selling Days	63	64	64	63	64	64
Organic Daily Sales	\$7.9	\$9.5	\$5.3	\$7.6	\$9.0	\$5.1

^(a) Represents Net sales from acquired branches that have not been under our ownership for at least four full fiscal quarters at the start of the 2018 fiscal year.

Liquidity and Capital Resources

Our ongoing liquidity needs are expected to be funded by cash on hand, net cash provided by operating activities and, as required, borrowings under the ABL Facility. We expect that cash provided from operations and available capacity under the ABL Facility will provide sufficient funds to operate our business, make expected capital expenditures, and meet our liquidity requirements for the following 12 months, including payment of interest and principal on our debt. Our borrowing base capacity under the ABL Facility was \$180.7 million as of September 30, 2018, after giving effect to approximately \$139.9 million of revolving credit loans under the ABL Facility, an increase of \$12.9 million from \$127.0 million of revolving credit loans as of December 31, 2017. As of September 30, 2018, we had total cash and cash equivalents of \$23.4 million, total gross long-term debt of \$586.1 million and capital leases of \$15.2 million. Working capital was \$513.7 million as of September 30, 2018, an increase of \$117.6 million as compared to \$396.1 million as of December 31, 2017. The increase in working capital was primarily attributable to seasonality of our business and growth in inventory and receivables from acquisitions.

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Information about our cash flows, by category, is presented in our statements of cash flows and is summarized below:
(In millions)

	Nine Months Ended	
	September 30,	October 1,
	2018	2017
Net cash provided by (used in):		
Operating activities	\$41.7	\$ (14.6)
Investing activities	\$(139.8)	\$(76.9)
Financing activities	\$104.9	\$99.1
Cash flow provided by (used in) operating activities		

Net cash provided by operating activities for the nine months ended September 30, 2018 was \$41.7 million compared to net cash used in operating activities of \$14.6 million for the nine months ended October 1, 2017. Net cash provided by operating activities during the first nine months of 2018 increased compared to the first nine months of 2017 primarily due to higher Net income and improvements in working capital management.

Cash flow used in investing activities

Net cash used in investing activities was \$139.8 million for the nine months ended September 30, 2018 compared to \$76.9 million for the nine months ended October 1, 2017. The increase reflected more investments in acquisitions during the first nine months of 2018 compared to the same period of 2017. In addition, capital expenditures were \$11.5 million for the first nine months of 2018, compared to \$10.3 million for the first nine months of 2017 due to increased investments in the new distribution centers and our facilities.

Cash flow provided by financing activities

Net cash provided by financing activities was \$104.9 million for the nine months ended September 30, 2018 compared to \$99.1 million for the nine months ended October 1, 2017. The increase primarily reflected increased borrowings to fund investments in acquisitions during the nine months ended September 30, 2018 compared to the same period of 2017.

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External Financing

Term Loan Facility

Landscape Holding and Landscape (collectively, the “Term Loan Borrower”) are parties to the Amended and Restated Term Loan Credit Agreement dated April 29, 2016, which was amended on November 23, 2016, May 24, 2017, December 12, 2017, and August 14, 2018, providing for a senior secured term loan facility (the “Term Loan Facility”), with UBS AG, Stamford Branch as administrative agent and collateral agent, and the other financial institutions and lenders from time to time party thereto. In connection with the amendment on August 14, 2018, the final maturity date of the Term Loan Facility was extended to October 29, 2024.

Subject to certain conditions, without the consent of the then existing lenders (but subject to the receipt of commitments), the Term Loan Facility may be expanded (or a new term loan facility, revolving credit facility or letter of credit facility added) by up to (i) \$100.0 million plus (ii) an additional amount that will not cause the net secured leverage ratio after giving effect to the incurrence of that additional amount and any use of proceeds thereof to exceed 3.50 to 1.00.

The Term Loan Facility is subject to mandatory prepayment provisions, covenants and events of default. Failure to comply with these covenants and other provisions could result in an event of default under the Term Loan Facility. If an event of default occurs, the lenders could elect to declare all amounts outstanding under the Term Loan Facility to be immediately due and payable and enforce their interest in collateral pledged under the agreement.

Term Loan Facility Amendments

On November 23, 2016, we amended the Term Loan Facility (the “First Amendment”) to, among other things, (i) add an additional credit facility under the Term Loan Facility consisting of additional term loans (the “Tranche B Term Loans”) in an aggregate principal amount of \$273.6 million and (ii) increase the aggregate principal amount of Tranche B Term Loans under the Term Loan Facility to \$298.6 million pursuant to an increase supplement. Proceeds of the Tranche B Term Loans were used to, among other things, (i) repay in full the term loans outstanding under the Term Loan Facility immediately prior to the effectiveness of the First Amendment and (ii) repay \$21.0 million of borrowings outstanding under the ABL Facility.

On May 24, 2017, we amended the Term Loan Facility (the “Second Amendment”) to, among other things, add an additional credit facility under the Term Loan Facility consisting of additional term loans (the “Tranche C Term Loans”) in an aggregate principal amount of \$299.5 million. Proceeds of the Tranche C Term Loans were used to, among other things, repay in full the Tranche B Term Loans outstanding under the Term Loan Facility immediately prior to effectiveness of the Second Amendment and pay fees and expenses associated with the transaction.

On December 12, 2017, the Company amended the Term Loan Facility (the “Third Amendment”) to, among other things, (i) add an additional credit facility under the Term Loan Facility consisting of additional term loans (the “Tranche D Term Loans”) in an aggregate principal amount of \$298.0 million and (ii) increase the aggregate principal amount of Tranche D Term Loans under the Term Loan Facility to \$350.0 million. Proceeds of the Tranche D Term Loans were used to, among other things, (i) repay in full the Tranche C Term Loans and (ii) repay approximately \$50.7 million of borrowings outstanding under the ABL Facility.

On August 14, 2018, the Company amended the Term Loan Facility (the “Fourth Amendment”) to, among other things, (i) add an additional credit facility under the Term Loan Facility consisting of additional term loans (the “Tranche E Term Loans”) in an aggregate principal amount of \$347.4 million and (ii) increase the aggregate principal amount of Tranche E Term Loans under the Term Loan Facility to \$447.4 million. Proceeds of the Tranche E Term Loans were used to, among other things, (i) repay in full the Tranche D Term Loans and (ii) repay approximately \$96.8 million of borrowings outstanding under the ABL Facility.

The Tranche E Term Loans bear interest, at Landscape Holding’s option, at either (i) an adjusted LIBOR rate (as defined in the Term Loan Facility) plus an applicable margin equal to 2.75% or (ii) an alternative base rate plus an

applicable margin equal to 1.75%. The other terms of the Tranche E Term Loans are generally the same as the terms applicable to the previously existing term loans under the Term Loan Facility, provided that certain terms of the Term Loan Facility were modified by the Fourth Amendment. The interest rate on the outstanding balance was 4.89% at September 30, 2018.

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ABL Facility

Landscape Holding and Landscape are borrowers under the ABL Facility of up to \$325.0 million, subject to borrowing base availability. The ABL Facility is secured by a first lien on the inventory and receivables of Landscape Holding and Landscape. The ABL Facility is guaranteed by Bidco and each direct and indirect wholly-owned U.S. restricted subsidiary of Landscape. Availability under the ABL Facility is determined using borrowing base calculations of eligible inventory and receivable balances. The interest rate on the ABL Facility is LIBOR plus an applicable margin ranging from 1.25% to 2.00% or an alternate base rate for U.S. denominated borrowings plus an applicable margin ranging from 0.25% to 1.00%. The interest rates on outstanding balances range from 4.25% to 6.25% and 3.25% to 3.32% as of September 30, 2018 and December 31, 2017, respectively. Additionally, the Borrowers paid a commitment fee of 0.250% and 0.250% on the unfunded amount as of September 30, 2018 and December 31, 2017, respectively. The ABL Facility matures on October 20, 2020.

The ABL Facility is subject to mandatory prepayments if the outstanding loans and letters of credit exceed either the aggregate revolving commitments or the current borrowing base, in an amount equal to such excess. Additionally, the ABL Facility is subject to various covenants requiring minimum financial ratios, and additional borrowings may be limited by these financial ratios. The ABL Facility is also subject to other covenants and events of default. There are no financial covenants included in the ABL Credit Agreement, other than a springing minimum fixed charge coverage ratio of at least 1.00 to 1.00, which is tested only when specified availability is less than 10% of the lesser of (x) the then applicable borrowing base and (y) the then aggregate effective commitments under the ABL Facility, and continuing until such time as specified availability has been in excess of such threshold for a period of 30 consecutive calendar days. Failure to comply with the covenants and other provisions included in the ABL Credit Agreement could result in an event of default under the ABL Facility. If an event of default occurs, the lenders could elect to declare all amounts outstanding under the ABL Facility to be immediately due and payable, enforce their interest in collateral pledged under the agreement or restrict the borrowers' ability to obtain additional borrowings thereunder. Limitations on Distributions and Dividends by Subsidiaries

The ability of our subsidiaries to make distributions and dividends to us depends on their operating results, cash requirements and financial condition and general business conditions, as well as restrictions under the laws of our subsidiaries' jurisdictions.

The agreements governing the Term Loan Facility and the ABL Facility (collectively, the "Credit Facilities") restrict the ability of our subsidiaries to pay dividends, make loans or otherwise transfer assets to us. Further, our subsidiaries are permitted under the terms of the Credit Facilities and other indebtedness to incur additional indebtedness that may restrict or prohibit the making of distributions, the payment of dividends or the making of loans to us.

Interest Rate Swaps

We utilize interest rate swap contracts to reduce our exposure to fluctuations in variable interest rates for future interest payments on our unsecured syndicated senior Term Loan Facility. In June 2017, we entered into two forward-starting interest rate swap contracts to convert the variable interest rate to a fixed interest rate on portions of the borrowings under the Term Loan Facility. The contracts become effective on March 11, 2019 and terminate on June 11, 2021.

We will recognize any differences between the variable interest rate payments and the fixed interest rate settlements from the swap counterparties as an adjustment to interest expense over the life of the swaps. We have designated these swaps as cash flow hedges and will record the changes in the estimated fair value of the swaps to Accumulated other comprehensive income (loss) on our Consolidated Balance Sheets. To the extent the interest rate swaps are determined to be ineffective, we will recognize the changes in the estimated fair value of the swaps in earnings.

Failure of the swap counterparties would result in the loss of any potential benefit to us under the swap agreements. In that event, we would still be obligated to pay the variable interest payments underlying the debt agreements.

Additionally, failure of the swap counterparties would not eliminate our obligation to continue to make payments under the existing swap agreements if it continues to be in a net pay position.

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Contractual Obligations and Commitments

The following table summarizes material changes to our contractual obligations as of September 30, 2018, resulting from the changes in our long term debt. The changes during the nine months ended September 30, 2018 were primarily the result of increased borrowings and higher interest rates.

(In millions)

	Payments Due by Period				
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	
Long term debt, including current maturities ⁽¹⁾	\$586.1	\$3.4	\$150.0	\$8.9	\$423.8
Interest on long term debt ⁽²⁾	145.3	28.5	50.7	42.5	23.6

(1) For additional information see “Note 9. Long-Term Debt” in the notes to the consolidated financial statements. In addition, the table excludes the debt issuance costs and debt discounts of \$11.9 million.

Interest payments on debt are calculated for future periods using interest rates in effect as of September 30, 2018.

Certain of these projected interest payments may differ in the future based on changes in floating interest rates or other factors and events. The projected interest payments only pertain to obligations and agreements outstanding as of September 30, 2018. See “Note 9. Long-Term Debt” in the notes to the consolidated financial statements for further information regarding our debt instruments.

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Critical Accounting Estimates

There were no material changes in our critical accounting estimates since the filing of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Recently Issued and Adopted Accounting Pronouncements

See “Note 1. Nature of Business and Significant Accounting Policies” in the notes to the consolidated financial statements.

Accounting Pronouncements Issued But Not Yet Adopted

See “Note 1. Nature of Business and Significant Accounting Policies” in the notes to the consolidated financial statements.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes from the information provided in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Item 4. Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), as of the end of the period covered by this report. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q. In addition, no significant change in our internal control over financial reporting occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are not currently involved in any material litigation or arbitration. We anticipate that, similar to the rest of the landscape supply industry, we will be subject to litigation and arbitration from time to time in the ordinary course of business. At this time, we do not expect any of these proceedings to have a material effect on our reputation, business, financial position, results of operations or cash flows. However, we can give no assurance that the results of any such proceedings will not materially affect our reputation, business, financial position, results of operations and cash flows.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

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Item 6. Exhibits.

Exhibit Number	Description
10.1	<u>Fourth Amendment to Amended and Restated Credit Agreement, dated as of August 14, 2018, by and among SiteOne Landscape Supply Holding, LLC (f/k/a JDA Holding LLC), SiteOne Landscape Supply, LLC (f/k/a John Deere Landscapes LLC), UBS AG, Stamford Branch, as administrative agent and collateral agent and the several banks and other financial institutions party hereto, is incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of SiteOne Landscape Supply, Inc. filed August 14, 2018 (the "Form 8-K").</u>
10.2	<u>Increase Supplement, dated as of August 14, 2018, by and among SiteOne Supply Holding, LLC (f/k/a JDA Holding LLC) and UBS AG, Stamford Branch, as increasing lender, is incorporated by reference to Exhibit 10.2 to the Form 8-K.</u>
31.1	<u>Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a - 14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a - 14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Extension Presentation Linkbase

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SIGNATURE

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.

SITEONE LANDSCAPE SUPPLY, INC.

Date: October 31, 2018 By: /s/ John T. Guthrie

John T. Guthrie

Executive Vice President, Chief Financial Officer and Assistant Secretary
(Principal Financial and Principal Accounting Officer)