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

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 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 incorporation or organization)	(IRS Employer 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 sim 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:

- cyclicality in 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)

Assets	September 30, 2018	December 31, 2017
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)

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	39,779,852	40,360,969	39,713,486
Diluted	42,746,803	41,373,375	42,650,088	41,247,133

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		Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 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 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, 2018	December 31, 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.

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Note 6. Goodwill and Intangible Assets, Net

Goodwill

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

January 1,
2018