

BEACON ROOFING SUPPLY INC

Form 10-Q

May 09, 2018

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 AND EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2018

OR

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

For the Transition Period from _____ to _____

Commission File Number 000-50924

BEACON ROOFING SUPPLY, INC.

(Exact name of registrant as specified in its charter)

Delaware 36-4173371
(State or other jurisdiction of (I.R.S. Employer

Incorporation or Organization) Identification No.)

505 Huntmar Park Drive, Suite 300, Herndon, VA 20170

(Address of Principal Executive Offices) (Zip Code)

(571) 323-3939

(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 and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes
No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of April 30, 2018, 68,086,674 shares of common stock, par value \$0.01 per share, of the registrant were outstanding.

BEACON ROOFING SUPPLY, INC.

FORM 10-Q

For the Quarter Ended March 31, 2018

TABLE OF CONTENTS

| | | |
|----------|--|----|
| Part I. | Financial Information (unaudited) | |
| Item 1. | Condensed Consolidated Financial Statements | |
| | <u>Consolidated Balance Sheets</u> | 4 |
| | <u>Consolidated Statements of Operations</u> | 5 |
| | <u>Consolidated Statements of Comprehensive Income</u> | 6 |
| | <u>Consolidated Statements of Cash Flows</u> | 7 |
| | <u>Notes to Condensed Consolidated Financial Statements</u> | 8 |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition And Results of Operations</u> | 31 |
| Item 3. | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 47 |
| Item 4. | <u>Controls and Procedures</u> | 47 |
| Part II. | <u>Other Information</u> | 48 |
| Item 6. | <u>Exhibits</u> | 48 |
| | <u>Signatures</u> | 50 |

BEACON ROOFING SUPPLY, INC.

Consolidated Balance Sheets

(Unaudited; In thousands, except share and per share amounts)

| | March 31, 2018 | September 30, 2017 | March 31, 2017 |
|---|--------------------|-----------------------|--------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$16,000 | \$138,250 | \$10,012 |
| Accounts receivable, less allowance of \$16,493, \$11,829 and \$17,140 as of March 31, 2018, September 30, 2017 and March 31, 2017, respectively | 832,823 | 704,527 | 506,386 |
| Inventories, net | 1,005,577 | 551,924 | 580,889 |
| Prepaid expenses and other current assets | 240,315 | 209,138 | 217,389 |
| Total current assets | 2,094,715 | 1,603,839 | 1,314,676 |
| Property and equipment, net | 294,222 | 156,129 | 156,380 |
| Goodwill | 2,381,620 | 1,251,986 | 1,228,059 |
| Intangibles, net | 1,410,302 | 429,069 | 439,507 |
| Other assets, net | 1,511 | 8,534 | 1,511 |
| Total Assets | \$6,182,370 | \$3,449,557 | \$3,140,133 |
| Liabilities and Stockholders' Equity | | | |
| Current liabilities: | | | |
| Accounts payable | \$593,559 | \$503,697 | \$486,328 |
| Accrued expenses | 348,050 | 261,297 | 131,264 |
| Current portions of long-term debt | 19,597 | 14,141 | 14,014 |
| Total current liabilities | 961,206 | 779,135 | 631,606 |
| Borrowings under revolving lines of credit, net | 424,528 | 3,205 | 269,124 |
| Long-term debt, net | 2,493,889 | 721,268 | 722,101 |
| Deferred income taxes, net | 91,101 | 138,383 | 137,495 |
| Long-term obligations under equipment financing and other, net | 18,313 | 23,213 | 28,267 |
| Other long-term liabilities | 10,617 | 2,547 | 2,372 |
| Total liabilities | 3,999,654 | 1,667,751 | 1,790,965 |
| Commitments and contingencies (Note 9) | | | |
| Convertible preferred stock; \$0.01 par value; 400,000 shares authorized, issued and outstanding as of March 31, 2018; none authorized, issued and outstanding as of September 30, 2017 or March 31, 2017 | \$399,195 | \$- | \$- |
| Stockholders' equity: | | | |
| Common stock (voting); \$0.01 par value; 100,000,000 shares authorized; 68,043,284 issued and outstanding as of March 31, 2018; 67,700,858 | 680 | 677 | 602 |

issued and outstanding as of September 30, 2017; 60,255,320 issued

and outstanding at March 31, 2017

Undesignated preferred stock; 5,000,000 shares authorized,

| | | | |
|--|-------------|--------------|-------------|
| none issued or outstanding | - | - | - |
| Additional paid-in capital | 1,056,248 | 1,047,506 | 709,278 |
| Retained earnings | 743,127 | 748,186 | 658,396 |
| Accumulated other comprehensive loss | (16,534) | (14,563) | (19,108) |
| Total stockholders' equity | 1,783,521 | 1,781,806 | 1,349,168 |
| Total Liabilities and Stockholders' Equity | \$6,182,370 | \$ 3,449,557 | \$3,140,133 |

See accompanying Notes to Condensed Consolidated Financial Statements

BEACON ROOFING SUPPLY, INC.

Consolidated Statements of Operations

(Unaudited; In thousands, except share and per share amounts)

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---------------------------------|------------|-------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Net sales | \$1,425,625 | \$870,724 | \$2,547,604 | \$1,872,908 |
| Cost of products sold | 1,087,248 | 666,247 | 1,939,474 | 1,417,364 |
| Gross profit | 338,377 | 204,477 | 608,130 | 455,544 |
| Operating expense | 395,775 | 207,533 | 616,432 | 411,643 |
| Income (loss) from operations | (57,398) | (3,056) | (8,302) | 43,901 |
| Interest expense, financing costs, and other | 39,570 | 12,268 | 62,138 | 25,842 |
| Income (loss) before provision for income taxes | (96,968) | (15,324) | (70,440) | 18,059 |
| Provision for (benefit from) income taxes | (30,313) | (5,968) | (71,381) | 6,985 |
| Net income (loss) | \$(66,655) | \$(9,356) | \$941 | \$11,074 |
| Dividends on preferred shares, declared | 6,000 | - | 6,000 | - |
| Net income (loss) attributable to common shareholders | \$(72,655) | \$(9,356) | \$(5,059) | \$11,074 |
| Weighted-average common stock outstanding: | | | | |
| Basic | 68,019,300 | 60,141,580 | 67,922,276 | 60,041,332 |
| Diluted | 68,019,300 | 60,141,580 | 67,922,276 | 61,069,938 |
| Net income (loss) per share: | | | | |
| Basic | \$(1.07) | \$(0.16) | \$(0.07) | \$0.18 |
| Diluted | \$(1.07) | \$(0.16) | \$(0.07) | \$0.18 |

See accompanying Notes to Condensed Consolidated Financial Statements

BEACON ROOFING SUPPLY, INC.

Consolidated Statements of Comprehensive Income

(Unaudited; In thousands)

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---------------------------------|------------|-------------------------------|----------|
| | 2018 | 2017 | 2018 | 2017 |
| Net income (loss) | \$(66,655) | \$(9,356) | \$941 | \$11,074 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustment | (2,028) | 813 | (1,971) | (839) |
| Total other comprehensive income (loss) | (2,028) | 813 | (1,971) | (839) |
| Comprehensive income (loss) | \$(68,683) | \$(8,543) | \$(1,030) | \$10,235 |

See accompanying Notes to Condensed Consolidated Financial Statements

BEACON ROOFING SUPPLY, INC.

Consolidated Statements of Cash Flows

(Unaudited; In thousands)

| | Six Months Ended March 31, | |
|---|-------------------------------|-----------|
| | 2018 | 2017 |
| Operating Activities | | |
| Net income (loss) | \$941 | \$11,074 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 81,092 | 56,955 |
| Stock-based compensation | 7,835 | 7,574 |
| Certain interest expense and other financing costs | 3,987 | 2,703 |
| Loss on debt extinguishment | 1,725 | - |
| Gain on sale of fixed assets | (319) | (420) |
| Deferred income taxes ¹ | (47,260) | 2,020 |
| Other, net | - | 131 |
| Changes in operating assets and liabilities, net of the effects of businesses acquired: | | |
| Accounts receivable | 186,170 | 123,590 |
| Inventories | (131,789) | (92,072) |
| Prepaid expenses and other assets | 67,425 | (53,062) |
| Accounts payable and accrued expenses | (130,695) | 91,950 |
| Other liabilities | 854 | 87 |
| Net cash provided by (used in) operating activities | 39,966 | 150,530 |
| Investing Activities | | |
| Purchases of property and equipment | (24,833) | (24,231) |
| Acquisition of businesses, net | (2,726,561) | (58,359) |
| Proceeds from the sale of assets | 413 | 1,285 |
| Net cash provided by (used in) investing activities | (2,750,981) | (81,305) |
| Financing Activities | | |
| Borrowings under revolving lines of credit | 1,530,667 | 857,099 |
| Repayments under revolving lines of credit | (1,097,463) | (948,470) |
| Borrowings under term loan | 970,000 | - |
| Repayments under term loan | (441,000) | (1,125) |
| Borrowings under senior notes | 1,300,000 | - |
| Payment of debt issuance costs | (67,723) | - |
| Repayments under equipment financing facilities and other | (5,643) | (5,365) |
| Proceeds from issuance of convertible preferred stock | 400,000 | - |
| Payment of stock issuance costs | (1,279) | - |
| Payment of dividends on preferred stock | (978) | - |
| Proceeds from issuance of common stock related to equity awards | 5,317 | 7,840 |
| Taxes paid related to net share settlement of equity awards | (3,933) | (697) |
| Net cash provided by (used in) financing activities | 2,587,965 | (90,718) |
| Effect of exchange rate changes on cash and cash equivalents | 800 | 119 |
| Net increase (decrease) in cash and cash equivalents | (122,250) | (21,374) |

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| | | |
|--|----------|----------|
| Cash and cash equivalents, beginning of period | 138,250 | 31,386 |
| Cash and cash equivalents, end of period | \$16,000 | \$10,012 |
| Supplemental cash flow information | | |
| Cash paid during the period for: | | |
| Interest | \$28,659 | \$29,592 |
| Income taxes, net of tax refunds | 33,037 | 36,151 |
| Supplemental disclosure of non-cash financing activity | | |
| Preferred stock dividends, accrued and unpaid | 5,022 | - |

¹ Includes impact of provisional amounts recognized relating to estimated impact of Tax Cuts and Jobs Act of 2017 – see Note 12.

See accompanying Notes to Condensed Consolidated Financial Statements

7

BEACON ROOFING SUPPLY, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Company Overview

Beacon Roofing Supply, Inc. (the “Company”) was incorporated in the state of Delaware on August 22, 1997 and is the largest publicly traded distributor of residential and non-residential roofing materials and complementary building products in the United States and Canada.

On January 2, 2018, the Company finalized its acquisition of Allied Building Products Corp., a New Jersey corporation, and an affiliated entity (together “Allied”) for \$2.625 billion, subject to certain working capital and other adjustments (see Note 3). Allied engages in the distribution of roofing materials, drywall, ceiling tile, and related accessories in the United States and was a wholly-owned subsidiary of Oldcastle Distribution, Inc.

The Company operates its business under regional and local trade names and, as of March 31, 2018, the Company serviced customers in all 50 states within the United States and 6 provinces in Canada. The Company’s material subsidiaries are Beacon Sales Acquisition, Inc., Allied Building Products, LLC and Beacon Roofing Supply Canada Company.

2. Summary of Significant Accounting Policies

Basis of Presentation

Beacon Roofing Supply, Inc. (the “Company”) prepared the condensed consolidated financial statements in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and the requirements of the Securities and Exchange Commission (“SEC”). As permitted under those rules, certain footnotes or other financial information have been condensed or omitted. Certain prior period amounts have been reclassified to conform to current period presentation. The balance sheet as of March 31, 2017 has been presented for a better understanding of the impact of seasonal fluctuations on the Company’s financial condition.

In management’s opinion, the financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of the Company’s financial position and operating results. The results for the three and six months ended March 31, 2018 are not necessarily indicative of the results to be expected for the twelve months ending September 30, 2018 (“fiscal year 2018” or “2018”).

The three-month periods ended March 31, 2018 and 2017 each had 64 business days and the six-month periods ended March 31, 2018 and 2017 each had 125 business days, respectively.

These interim Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto contained in the Company’s fiscal year 2017 (“2017”) Annual Report on Form 10-K for the year ended September 30, 2017.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes. Significant items subject to such estimates include inventories, purchase price allocations, recoverability of goodwill and intangibles, and income taxes. Actual amounts could differ from those estimates.

Recent Accounting Pronouncements—Adopted

In March 2016, the FASB issued ASU 2016-09, “Compensation—Stock Compensation: Improvements to Employee Share-Based Payment Accounting.” This guidance is intended to simplify several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. The provisions of this standard are effective for reporting periods beginning after December 15, 2016 and early adoption is permitted in any interim or annual period. The Company adopted this guidance effective October 1, 2017. As a result, the Company now records excess tax benefits (or deficiencies) as income tax benefits (or expenses) in our consolidated statements of operations rather than as additional paid-in-capital in its consolidated balance sheets. ASU 2016-09 allowed for this guidance to be applied prospectively or retrospectively. The Company elected to apply this guidance prospectively, and recognized \$0.4 million and \$2.9 million of excess tax benefits in our consolidated statement of operations related to equity award transactions executed in the period for the three and six months ended March 31, 2018. To align with the prospective treatment in our consolidated statements of operations, the Company now classifies excess tax benefits (or deficiencies) along with accrued income

taxes in operating activities within our consolidated statements of cash flows. The Company elected to retain its historical approach to accounting for forfeitures and statutory tax withholding requirements, therefore these specific aspects of the new guidance had no impact on its financial statements and related disclosures.

In November 2016, the FASB issued ASU 2016-18, “Restricted Cash.” This guidance standardizes the presentation of changes to restricted cash on the statement of cash flows by requiring that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amount generally described as restricted cash or restricted cash equivalents. The provisions of this standard are effective for reporting periods beginning after December 15, 2017. Early adoption is permitted in any interim or annual period, and the guidance is required to be applied retrospectively. The Company adopted this guidance effective October 1, 2017 and the standard did not have a material impact on the Company’s financial statement and related disclosures.

Recent Accounting Pronouncements—Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers.” This guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers, and will replace most existing revenue recognition guidance when it becomes effective. The new standard is effective for public business entities for annual and interim reporting periods beginning after December 15, 2017, and early adoption is permitted for annual reporting periods beginning after December 15, 2016. The standard permits the use of either the full retrospective or modified retrospective adoption methods. The Company is continuing to perform a detailed evaluation, using a five-step model specified in the guidance, to assess the impacts of the new standard on our legacy and newly acquired businesses, and expects to apply the guidance using the modified retrospective method. Based on the Company’s knowledge of its revenue transactions, the Company does not expect the adoption of this new guidance to have a material impact on its financial statements, but does expect that it will result in additional revenue recognition disclosures.

In February 2016, the FASB issued ASU 2016-02, “Leases.” This guidance will replace most existing accounting for lease guidance when it becomes effective. This new standard is effective using the modified retrospective approach for annual and interim reporting periods beginning after December 15, 2018 and early adoption is permitted. The guidance will require the Company to record a right of use asset and a lease liability for most of the Company’s leases, including those currently treated as operating leases. The Company is in the process of evaluating the impact of the standard and has decided that it will use the practical expedients outlined in the transition guidance. The scope of the overall impact on the Company’s financial statements and related disclosures is still being quantified.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments.” This guidance is intended to introduce a revised approach to the recognition and measurement of credit losses, emphasizing an updated model based on expected losses rather than incurred losses. This new standard is effective for annual and interim reporting periods beginning after December 15, 2019 and early adoption is permitted. The Company is currently evaluating the impact that this guidance may have on its financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations: Clarifying the Definition of a Business.” This guidance is intended to assist entities when evaluating when a set of transferred assets and activities constitutes a business. This new standard is effective for annual and interim reporting periods beginning after December 15, 2017 and early adoption is permitted. The Company does not expect the adoption of this new guidance to have a material impact on its financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, “Simplifying the Accounting for Goodwill Impairment.” This guidance is intended to introduce a simplified approach to measurement of goodwill impairment, eliminating the need for a hypothetical purchase price allocation and instead measuring impairment by the amount a reporting unit’s carrying value exceeds its fair value. This new standard is effective for annual and interim reporting periods beginning

after December 15, 2019 and early adoption is permitted. The Company does not expect the adoption of this new guidance to have a material impact on its financial statements and related disclosures.

In May 2017, the FASB issued ASU 2017-09, "Scope of Modification Accounting." This guidance is intended to provide clarity and reduce both diversity in practice and cost and complexity when applying the guidance in Compensation – Stock Compensation, to a change to the terms or conditions of a share-based payment award. This new standard is effective for annual and interim reporting periods beginning after December 15, 2017 and early adoption is permitted. The Company does not expect the adoption of this new guidance to have a material impact on its financial statements and related disclosures.

In February 2018, the FASB issued ASU 2018-02, "Income Statement – Reporting Comprehensive Income." This guidance is intended to address the accounting treatment for the tax effects on items within accumulated other comprehensive income as a result of the adoption of the Tax Cuts and Jobs Act of 2017 (see Note 12). This new standard is effective for annual and interim reporting

periods beginning after December 15, 2018 and early adoption is permitted. The Company does not expect the adoption of this new guidance to have a material impact on its financial statements and related disclosures.

3. Acquisitions

Allied Building Products Corp.

On January 2, 2017 (the “Closing Date”), the Company completed its previously announced acquisition (the “Allied Acquisition”) of all the outstanding capital stock of Allied Building Products Corp. and an affiliated entity (together, “Allied”), pursuant to that certain Stock Purchase Agreement, dated August 24, 2017 (the “Stock Purchase Agreement”), among the Company, Oldcastle, Inc., as parent, and Oldcastle Distribution, Inc., as seller, for approximately \$2.625 billion in cash, subject to a working capital and certain other adjustments as set forth in the Stock Purchase Agreement (the “Purchase Price”). As of March 31, 2018, the Company estimated a working capital adjustment of \$120.9 million.

In connection with the Allied Acquisition, on the Closing Date the Company entered into (i) a new term loan agreement with Citibank, N.A., providing for a term loan B facility with an initial commitment of \$970.0 million and (ii) an amended and restated credit agreement with Wells Fargo Bank, N.A., providing for a senior secured asset-based revolving credit facility with an initial commitment of \$1.30 billion. Base borrowing rates on these facilities will be at LIBOR plus 1.25% and LIBOR plus 2.25%, respectively.

In connection with the Allied Acquisition, on the Closing Date, the Company completed the sale of 400,000 shares of Series A Cumulative Convertible Participating Preferred Stock, par value \$0.01 per share (the “Preferred Stock”), with an aggregate liquidation preference of \$400.0 million, at a purchase price of \$1,000 per share, to CD&R Boulder Holdings, L.P., pursuant to that certain Investment Agreement, dated as of August 24, 2017, with CD&R Boulder Holdings, L.P. and Clayton, Dubilier & Rice Fund IX, L.P. (solely for the purpose of limited provisions therein) (the “Convertible Preferred Stock Purchase”). The \$400.0 million in proceeds from the Convertible Preferred Stock Purchase were used to finance, in part, the Purchase Price. The Preferred Stock is convertible perpetual participating preferred stock of the Company, and conversion of the Preferred Stock into \$0.01 par value shares of the Company’s common stock will be at a conversion price of \$41.26 per share. The Preferred Stock accrues dividends at a rate of 6.0% per annum (payable in cash or in-kind, subject to certain conditions). The Preferred Stock is not mandatorily redeemable; therefore it is classified on the Company’s consolidated balance sheets as mezzanine equity and recognized at \$399.2 million (the \$400.0 million proceeds received on the Closing Date, net of \$0.8 million of issuance costs).

Allied’s results of operations have been included with Company’s consolidated results beginning January 2, 2018. Allied distributed products in 208 locations across 31 states as of the date of the close.

The Allied Acquisition has been accounted for as a business combination in accordance with the requirements of ASC 805 Business Combinations. The acquisition price has been allocated among assets acquired and liabilities assumed at fair value based on information currently available, with the excess recorded as goodwill. The goodwill recognized is attributable primarily to expected synergies from the Allied assembled workforce operating the branches as part of a larger network and the value stemming from the addition of both new customers and an established new line of business (interiors). The Company has recorded purchase accounting entries on a preliminary basis for the Allied Acquisition, detailed as follows (in thousands):

| | |
|------|----------|
| Cash | \$19,322 |
|------|----------|

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| | |
|----------------------------------|-------------|
| Accounts receivable | 315,485 |
| Inventory | 322,705 |
| Prepaid and other current assets | 59,279 |
| Property, plant, and equipment | 139,528 |
| Goodwill | 1,130,635 |
| Intangible assets | 1,037,000 |
| Current liabilities | (271,252) |
| Non-current liabilities | (6,820) |
| Total purchase price | \$2,745,882 |

The purchase accounting entries above assume the Company will make a Section 338(h)(10) election under the current U.S. tax code. As of March 31, 2018 the Company had not made this election, but expects to do so in in the fourth quarter of fiscal year 2018. Upon making the Section 338(h)(10) election, the Company will then determine the amount of Allied goodwill that will become tax deductible. All of the Company's goodwill plus the indefinite-lived trade name are tested for impairment annually, and all acquired goodwill and intangible assets are subject to review for impairment should future indicators of impairment develop. There were no material contingencies assumed as part of the Allied acquisition.

Net sales from the Allied Acquisition included in the Company's statements of operations for the three and six months ended March 31, 2018 were \$534.1 million. Net income (loss) from the Allied Acquisition included in the Company's statements of operations for the three and six months ended March 31, 2018 was a loss of \$13.0 million.

The following table represents the unaudited pro forma consolidated net sales and net income (loss) for the Company for the periods indicated (in thousands):

| | Six Months Ended | Six Months Ended |
|-------------------|----------------------------------|---------------------|
| | March 31, 2018 (unaudited) | March 31, 2017 |
| Net sales | \$3,213,253 | \$3,029,811 |
| Net income (loss) | (37,153) | (33,094) |

The above pro forma results have been calculated by combining the historical results of the Company and Allied as if the Allied Acquisition had occurred on the first day of the fiscal year (October 1) for each of the periods presented. The income tax provision used to calculate net income (loss) for the respective periods presented has been adjusted to reflect the effective tax rate for the annual periods as if it had been based on the resulting, combined results. The pro forma results include estimates for intangible asset amortization, depreciation, interest expense and debt issuance costs and are subject to change once final asset values have been determined. No other material pro forma adjustments were deemed necessary to conform to the Company's accounting policies or for any other situation. The pro forma information is not necessarily indicative of the results that would have been achieved had the transactions occurred on the first day of the fiscal years presented or that may be achieved in the future.

Additional Acquisitions – Fiscal Year 2017

During fiscal year 2017, the Company acquired 23 branches from the following five acquisitions:

On December 16, 2016, the Company purchased certain assets of BJ Supply Company, a distributor of roofing and related building products with 1 branch serving Pennsylvania and New Jersey and annual sales of approximately \$4 million. The Company has finalized the acquisition accounting entries for this transaction.

- On January 3, 2017, the Company acquired American Building & Roofing, Inc., a distributor of mainly residential roofing and related building products with 7 branches around Washington State and annual sales of approximately \$36 million. The Company has finalized the acquisition accounting entries for this transaction.

On January 9, 2017, the Company acquired Eco Insulation Supply, a distributor of insulation and related accessories with 1 branch serving Connecticut, Southern New England and the New York City metropolitan area and annual sales of approximately \$8 million. The Company has finalized the acquisition accounting entries for this transaction.

On March 1, 2017, the Company acquired Acme Building Materials, Inc., a distributor of residential roofing and related building products with 3 branches in Eastern Michigan and annual sales of approximately \$13 million. The Company has finalized the acquisition accounting entries for this transaction.

On May 1, 2017, the Company purchased certain assets of Lowry's Inc., a distributor of waterproofing and concrete restoration materials with 11 branches operating in California, Arizona, Utah and Hawaii and annual sales of approximately \$76 million.

The Company recorded the acquired assets and liabilities related to these transactions at their estimated fair values as of the respective acquisition dates, with resulting goodwill of \$53.0 million (all of which is deductible for tax

purposes) and \$47.4 million in intangible assets associated with these other acquisitions.

For those acquisitions where the acquisition accounting entries have yet to be finalized, the Company's allocation of the purchase price is subject to change on receipt of additional information, including, but not limited to, the finalization of asset valuations (intangible and fixed) and income tax accounting as well as the Company's continued review of the assumed liabilities that may result in the recognition of changes to the carrying amounts on the Allied opening balance sheet and a related adjustment to goodwill.

4. Net Income (Loss) Per Share

Basic net income (loss) per share is calculated by dividing net income (loss), less dividends on preferred shares, by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per common share is calculated by utilizing the most dilutive result from the following two methods:

•**Two-class method:** This method assumes no conversion of the Preferred Stock. It is calculated by dividing net income (loss), less dividends on preferred shares, by the weighted-average number of common shares outstanding when including the dilutive effect common share equivalents then outstanding using the treasury stock method.

•**If-converted method:** This method assumes full conversion of the Preferred Stock as of the first day of the period. It is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding when including the dilutive effect of the Preferred Stock and the common share equivalents then outstanding using the treasury stock method.

In both of the aforementioned methods, common share equivalents consist of the incremental common shares issuable upon the exercise of stock options and vesting of restricted stock unit awards.

The following table presents the components and calculations of basic and diluted net income (loss) per share for each period presented (in thousands, except share and per share amounts):

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---------------------------------|------------|-------------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Net income (loss) | \$(66,655) | \$(9,356) | \$941 | \$11,074 |
| Less: Dividends on preferred shares, declared | 6,000 | - | 6,000 | - |
| Net income (loss) attributable to common shareholders | \$(72,655) | \$(9,356) | \$(5,059) | \$11,074 |
| Weighted-average common shares outstanding, basic | 68,019,300 | 60,141,580 | 67,922,276 | 60,041,332 |
| Effect of common share equivalents | - | - | - | 1,028,606 |
| Effect of Preferred Stock conversion | - | - | - | - |
| Weighted-average common shares outstanding, diluted | 68,019,300 | 60,141,580 | 67,922,276 | 61,069,938 |
| Net income (loss) per share - basic | \$(1.07) | \$(0.16) | \$(0.07) | \$0.18 |
| Net income (loss) per share - diluted | \$(1.07) | \$(0.16) | \$(0.07) | \$0.18 |

The following table includes the number of shares that may be dilutive common shares in the future. These shares were not included in the computation of diluted net income per share because the effect was either anti-dilutive or the requisite performance conditions were not met:

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|------------------------|---------------------------------|---------|-------------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| Stock options | 275,209 | 270,428 | 281,742 | 416,085 |
| Restricted stock units | 90,024 | - | 45,012 | 123,780 |

5. Stockholders' Equity

The following table presents the activity included in stockholders' equity during the six months ended March 31, 2018 (in thousands, except share amounts):

| | Common Stock | | Additional | Retained | Accumulated | Total |
|--|--------------|--------|-------------|-----------|--------------|---------------|
| | Shares | Amount | Paid-in | Earnings | Other | Stockholders' |
| | | | Capital | | Loss | Equity |
| Balance at September 30, 2017 | 67,700,858 | \$ 677 | \$1,047,506 | \$748,186 | \$ (14,563) | \$ 1,781,806 |
| Issuance of common stock, net of shares withheld for taxes | 342,426 | 3 | 1,381 | - | - | 1,384 |
| Issuance costs related to secondary offering of common stock | - | - | (474) | - | - | (474) |
| Stock-based compensation | - | - | 7,835 | - | - | 7,835 |
| Other comprehensive income (loss) | - | - | - | - | (1,971) | (1,971) |
| Net income (loss) | - | - | - | 941 | - | 941 |
| Dividends on preferred shares, declared | - | - | - | (6,000) | - | (6,000) |
| Balance at March 31, 2018 | 68,043,284 | \$ 680 | \$1,056,248 | \$743,127 | \$ (16,534) | \$ 1,783,521 |

Common Stock

The Company is authorized to issue 100 million shares of common stock. As of March 31, 2018, September 30, 2017, and March 31, 2017 there were 68,043,284, 67,700,858 and 60,255,320 shares of common stock issued and outstanding, respectively.

Accumulated Other Comprehensive Loss

Other comprehensive income (loss) is comprised of certain gains and losses that are excluded from net income under GAAP and instead recorded as a separate element of stockholders' equity. The Company's other comprehensive income (loss) consists of foreign currency translation adjustments as well as unrealized gains or losses on the Company's derivative contracts.

The following table summarizes the components of and changes in accumulated other comprehensive loss (in thousands):

| | Accumulated | |
|---|--------------|---------------|
| | Foreign | Other |
| | Currency | Comprehensive |
| | Translation | Loss |
| Balance as of September 30, 2017 | \$ (14,563) | \$ (14,563) |
| Other comprehensive income before reclassifications | (1,971) | (1,971) |
| Reclassifications out of other comprehensive loss | - | - |

Balance as of March 31, 2018

\$ (16,534) \$ (16,534)

6. Stock-based Compensation

On February 9, 2016, the shareholders of the Company approved the Amended and Restated Beacon Roofing Supply, Inc. 2014 Stock Plan (the “2014 Plan”). The 2014 Plan provides for discretionary awards of stock options, stock awards, restricted stock units, and stock appreciation rights (“SARs”) for up to 5,000,000 shares of common stock to selected employees and non-employee directors. The 2014 Plan mandates that all forfeited, expired, and withheld shares, including those from the predecessor plans, be returned to the 2014 Plan and made available for issuance. As of March 31, 2018, there were 3,723,984 shares of common stock available for issuance.

Prior to the 2014 Plan, the Company maintained the amended and restated Beacon Roofing Supply, Inc. 2004 Stock Plan (the “2004 Plan”). Upon shareholder approval of the 2014 Plan, the Company ceased issuing equity awards from the 2004 Plan and mandated that all future equity awards will be issued from the 2014 Plan.

For all equity awards granted prior to October 1, 2014, in the event of a change in control of the Company, all awards are immediately vested. Beginning in fiscal 2015, equity awards contained a “double trigger” change in control mechanism. Unless an award is continued or assumed by a public company in an equitable manner, an award shall become fully vested immediately prior to a change in control (at 100% in the case of a performance-based restricted stock award). If an award is so continued or assumed, vesting will continue in accordance with the terms of the award, unless there is a qualifying termination within one-year following the

change in control, in which event the award shall become fully vested immediately (at 100% in the case of a performance-based restricted stock award).

Stock Options

Non-qualified stock options generally expire 10 years after the grant date and, except under certain conditions, the options are subject to continued employment and vest in three annual installments over the three-year period following the grant dates.

The fair values of the options granted during the six months ended March 31, 2018 were estimated on the dates of grants using the Black-Scholes option-pricing model with the following weighted-average assumptions:

| | |
|--------------------------|---------|
| Risk-free interest rate | 2.10 % |
| Expected volatility | 26.43 % |
| Expected life (in years) | 5.46 |
| Dividend yield | - |

The following table summarizes all stock option activity for the six months ended March 31, 2018 (in thousands, except share, per share, and time period amounts):

| | Options | Weighted- Average Exercise Price | Weighted- Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value ¹ |
|--|------------|---|--|--|
| Balance as of September 30, 2017 | 2,084,228 | \$ 28.84 | 6.1 | \$ 46,714 |
| Granted | 276,370 | 55.17 | | |
| Exercised | (217,397) | 24.46 | | |
| Canceled/Forfeited | (47,842) | 41.82 | | |
| Expired | (1,991) | 15.28 | | |
| Balance as of March 31, 2018 | 2,093,368 | \$ 32.48 | 6.2 | \$ 43,646 |
| Vested and expected to vest after March 31, 2018 | 2,071,674 | \$ 32.32 | 6.1 | \$ 43,510 |
| Exercisable as of March 31, 2018 | 1,512,437 | \$ 27.48 | 5.2 | \$ 38,704 |

¹ Aggregate intrinsic value as represents the difference between the closing fair value of the underlying common stock and the exercise price of outstanding, in-the-money options on the date of measurement.

During the three months ended March 31, 2018 and 2017, the Company recorded stock-based compensation expense related to stock options of \$0.8 million and \$1.3 million, respectively. During the six months ended March 31, 2018 and 2017, the Company recorded stock-based compensation expense related to stock options of \$1.9 million and \$2.6 million, respectively. As of March 31, 2018, there was \$6.7 million of unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a weighted-average period of 2.1 years.

The following table summarizes additional information on stock options for the periods presented (in thousands, except per share amounts):

| | Six Months Ended March 31, | |
|--|----------------------------------|----------|
| | 2018 | 2017 |
| Weighted-average fair value of stock options granted | \$ 15.86 | \$ 14.21 |
| Total fair value of stock options vested | 3,832 | 4,977 |
| Total intrinsic value of stock options exercised | 7,700 | 7,906 |

Restricted Stock Units

Restricted stock unit (“RSU”) awards granted to employees are subject to continued employment and generally vest on the third anniversary of the grant date. The Company also grants certain RSU awards to management that contain one or more additional vesting conditions tied directly to a defined performance metric for the Company. The actual number of RSUs that will vest can range from 0% to 200% of the original grant amount, depending upon actual Company performance below or above the established performance metric targets. The Company estimates performance in relation to the defined targets when determining the projected number of RSUs that are expected to vest and calculating the related stock-based compensation expense.

RSUs granted to non-employee directors are subject to continued service and vest on the first anniversary of the grant date (except under certain conditions). Generally, the common shares underlying the RSUs are not eligible for distribution until the non-employee director's service on the Board has terminated, and for non-employee director RSU grants made prior to fiscal year 2014, the share distribution date is six months after the director's termination of service on the board. Beginning in fiscal year 2016, the Company enacted a policy that allows any non-employee directors who hold common stock and have outstanding vested equity awards with a total fair value that is greater than or equal to five times the annual Board cash retainer to elect to have any future RSU grants settle simultaneously with vesting.

The following table summarizes all restricted stock unit activity for the six months ended March 31, 2018:

| | RSUs | Weighted-Average Grant Date Fair Value |
|--|------------|--|
| Balance at September 30, 2017 | 770,973 | \$ 38.95 |
| Granted | 370,190 | 57.40 |
| Performance awards ¹ | 41,440 | 39.56 |
| Released | (189,154) | 31.63 |
| Canceled/Forfeited | (35,974) | 47.65 |
| Balance at March 31, 2018 | 957,475 | \$ 47.23 |
| Vested and expected to vest after March 31, 2018 | 936,924 | \$ 47.10 |

¹ Additional restricted stock units outstanding as a result of the satisfaction of a performance vesting condition prior to the ascribed time-based vesting condition (release date).

During the three months ended March 31, 2018 and 2017, the Company recorded stock-based compensation expense related to restricted stock units of \$3.5 million and \$2.5 million, respectively. During the six months ended March 31, 2018 and 2017, the Company recorded stock-based compensation expense related to restricted stock units of \$5.9 million and \$5.0 million, respectively. As of March 31, 2018, there was \$26.2 million of unrecognized compensation cost related to unvested restricted stock units, which is expected to be recognized over a weighted-average period of 2.0 years.

The following table summarizes additional information on RSUs for the periods presented (in thousands, except per share amounts):

| | Six Months Ended March 31, | |
|---|----------------------------|---------|
| | 2018 | 2017 |
| Weighted-average fair value of RSUs granted | \$57.40 | \$47.27 |
| Total fair value of RSUs vested | 6,523 | 2,736 |
| Total intrinsic value of RSUs released | 10,924 | 3,074 |

7. Goodwill and Intangible Assets

Goodwill

The following table sets forth the change in the carrying amount of goodwill during the six months ended March 31, 2018 and 2017, respectively (in thousands):

| | |
|-----------------------------------|-------------|
| Balance at September 30, 2016 | \$1,197,565 |
| Acquisitions | 31,005 |
| Translation and other adjustments | (511) |
| Balance at March 31, 2017 | \$1,228,059 |
| Balance at September 30, 2017 | \$1,251,986 |
| Acquisitions | 1,130,635 |
| Translation and other adjustments | (1,001) |
| Balance at March 31, 2018 | \$2,381,620 |

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The change in the carrying amount of goodwill for the six months ended March 31, 2018 and 2017 is primarily attributable to the Company's acquisitions finalized during the respective periods presented (see Note 3).

Intangible Assets

In connection with transactions finalized during the six months ended March 31, 2018 and fiscal year 2017, the Company recorded intangible assets of \$1.04 billion (\$910.0 million of customer relationships, \$6.6 million of beneficial lease arrangements, and \$120.0 million of indefinite-lived trademarks). In connection with transactions finalized during fiscal year 2017, the Company recorded intangible assets of \$47.4 million (\$42.7 million of customer relationships, \$4.6 million of amortizable trademarks, and \$0.1 million of beneficial lease arrangements).

The following table summarizes intangible assets by category (in thousands, except time period amounts):

| | March 31, 2018 | September 30, 2017 | March 31, 2017 | Weighted- Average Remaining Life ¹ (Years) |
|--|-------------------|-----------------------|-------------------|---|
| Amortizable intangible assets: | | | | |
| Non-compete agreements | \$2,824 | \$ 2,824 | \$2,824 | 2.91 |
| Customer relationships | 1,519,766 | 610,026 | 582,028 | 19.08 |
| Trademarks | 10,500 | 10,500 | 6,670 | 7.97 |
| Beneficial lease arrangements | 7,644 | 1,060 | 960 | 4.96 |
| Total amortizable intangible assets | 1,540,734 | 624,410 | 592,482 | |
| Less: Accumulated amortization | (323,482) | (268,391) | (226,025) | |
| Total amortizable intangible assets, net | \$ 1,217,252 | \$ 356,019 | \$ 366,457 | |
| Indefinite lived trademarks | 193,050 | 73,050 | 73,050 | |
| Total intangibles, net | \$ 1,410,302 | \$ 429,069 | \$ 439,507 | |

¹ As of March 31, 2018

For the three months ended March 31, 2018 and 2017, we recorded \$37.1 million and \$20.3 million of amortization expense relating to the above-listed intangible assets, respectively. For the six months ended March 31, 2018 and 2017, we recorded \$55.3 million and \$40.4 million of amortization expense relating to the above-listed intangible assets, respectively. The intangible asset lives range from 5 to 20 years and have a weighted-average remaining life of 18.9 years as of March 31, 2018.

The following table summarizes the estimated future amortization expense for intangible assets (in thousands):

| Year Ending September 30, | |
|---------------------------|----------|
| 2018 (Apr - Sept) | \$74,619 |
| 2019 | 188,832 |
| 2020 | 181,762 |

| | |
|------------|-------------|
| 2021 | 152,665 |
| 2022 | 125,020 |
| Thereafter | 494,354 |
| | \$1,217,252 |

8. Financing Arrangements

The following table summarizes all financing arrangements from the respective periods presented (in thousands):

| | March 31, 2018 | September 30, 2017 | March 31, 2017 |
|--|--------------------|-----------------------|----------------------|
| Revolving Lines of Credit: | | | |
| 2020 ABL | | | |
| U.S. Revolver, expires October 1, 2020 ¹ | \$- | \$ - | \$269,124 |
| Canada Revolver, expires October 1, 2020 ² | - | 3,205 | - |
| 2023 ABL | | | |
| U.S. Revolver, expires January 2, 2023 ³ | 424,528 | - | - |
| Canada Revolver, expires January 2, 2023 | - | - | - |
| Less: current portion | - | - | - |
| Borrowings under revolving lines of credit, net | \$424,528 | \$ 3,205 | \$269,124 |
| Term Loans: | | | |
| Term Loan, matures October 1, 2022 ⁴ | \$- | \$ 433,440 | \$434,912 |
| Term Loan, matures January 2, 2025 ⁵ | 931,909 | - | - |
| Less: current portion | (9,700) | (4,500) | (4,500) |
| Total long-term borrowings under term loans | \$922,209 | \$ 428,940 | \$430,412 |
| Senior Notes: | | | |
| Senior Notes, mature October 2023 ⁶ | 292,967 | 292,328 | 291,689 |
| Senior Notes, mature November 2025 ⁷ | 1,278,713 | - | - |
| Less: current portion | - | - | - |
| Total long-term borrowings under Senior Notes | \$1,571,680 | \$ 292,328 | \$291,689 |
| Long-term debt, net | \$2,493,889 | \$ 721,268 | \$722,101 |
| Equipment Financing Facilities and Other: | | | |
| Equipment financing facilities, various maturities through September 2021 ⁸ | \$13,347 | \$ 12,898 | \$15,577 |
| Capital lease obligations, various maturities through November 2021 ⁹ | 14,863 | 19,956 | 22,204 |
| Total obligations under equipment financing facilities and other | 28,210 | 32,854 | 37,781 |
| Less: current portion | (9,897) | (9,641) | (9,514) |
| Long-term obligations under equipment financing and other, net | \$18,313 | \$ 23,213 | \$28,267 |

¹ Extinguished on January 2, 2018 ; Effective rate on borrowings of 2.97% as of March 31, 2017

² Extinguished on January 2, 2018; Effective rate on borrowings of 3.70% as of September 30, 2017

³ Effective rate on borrowings of 3.41% as of March 31, 2018

⁴ Extinguished on January 2, 2018; Interest rate of 3.50% as of September 30, 2017 and March 31, 2017

⁵ Interest rate of 3.94% as of March 31, 2018

⁶ Interest rate of 6.38% as of March 31, 2018, September 30, 2017 and March 31, 2017

⁷ Interest rate of 4.88% as of March 31, 2018

⁸ Fixed interest rates ranging from 2.33% to 3.25% as of March 31, 2018, September 30, 2017, and March 31, 2017

⁹ Fixed interest rates ranging from 2.72% to 10.39% as of March 31, 2018 , September 30, 2017, and March 31, 2017

Financing - Allied Acquisition

In connection with the Allied Acquisition, the Company entered into various financing arrangements totaling \$3.57 billion, including an asset-based revolving line of credit of \$1.30 billion (“2023 ABL”), \$525.0 million of which was drawn at closing, and a \$970.0 million term loan (“2025 Term Loan”). The Company also raised an additional \$1.30 billion through the issuance of senior notes (the “2025 Senior Notes”).

The proceeds from these financing arrangements were used to finance the Allied Acquisition, to refinance or otherwise extinguish all third-party indebtedness, to pay fees and expenses associated with the acquisition, and to provide working capital and funds for other general corporate purposes. The Company capitalized new debt issuance costs totaling approximately \$67.7 million related to the 2023 ABL, the 2025 Term Loan and the 2025 Senior Notes.

Since the financing arrangements entered into in connection with the Allied Acquisition had certain lenders who also participated in previous financing arrangements entered into by the Company, portions of the transactions were accounted for as either a debt modification or a debt extinguishment. In accordance with the accounting for debt modification, the Company expensed \$2.0

million of debt issuance costs related to the Allied financing arrangements and recognized a loss on debt extinguishment of \$1.7 million. The remainder of the debt issuance costs will be amortized over the term of the Allied financing arrangements.

2023 ABL

On January 2, 2018, the Company entered into a \$1.30 billion asset-based revolving line of credit with Wells Fargo Bank, N.A. and a syndicate of other lenders. The 2023 ABL consists of revolving loans in both the United States (“2023 U.S. Revolver”) in the amount of \$1.20 billion and Canada (“2023 Canada Revolver”) in the amount of \$100.0 million. The 2023 ABL has a maturity date of January 2, 2023. The 2023 ABL has various borrowing tranches with an interest rate based on a LIBOR rate (with a floor) plus a fixed spread. The current unused commitment fees on the 2023 ABL are 0.25% per annum.

There is one financial covenant under the 2023 ABL, which is a Consolidated Fixed Charge Ratio. The Consolidated Fixed Charge Ratio is calculated by dividing consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) by Consolidated Fixed Charges (both as defined in the agreement). Per the covenant, the Company’s Consolidated Fixed Charge Ratio has to be a minimum of 1.00 at the end of each fiscal quarter, calculated on a trailing four quarter basis.

The 2023 ABL is secured by a first priority lien over substantially all of the Company’s and each guarantor’s accounts, chattel paper, deposit accounts, books, records and inventory (as well as intangibles related thereto), subject to certain customary exceptions (the “ABL Priority Collateral”), and a second priority lien over substantially all of the Company’s and each guarantor’s other assets, including all of the equity interests of any subsidiary held by the Company or any guarantor, subject to certain customary exceptions (the “Term Priority Collateral”). The 2023 ABL is guaranteed jointly, severally, fully and unconditionally by the Company’s active United States subsidiaries.

As of March 31, 2018, the total balance outstanding on the 2023 ABL, net of \$11.8 million of unamortized debt issuance costs, was \$424.5 million. The Company also has outstanding standby letters of credit related to the 2023 U.S. Revolver in the amount of \$14.8 million as of March 31, 2018.

2025 Term Loan

On January 2, 2018, the Company entered into a \$970.0 million Term Loan with Citibank N.A., and a syndicate of other lenders. The 2025 Term Loan requires quarterly principal payments in the amount of \$2.4 million, with the remaining outstanding principal to be paid on its January 2, 2025 maturity date. The interest rate is based on a LIBOR rate (with a floor) plus a fixed spread. The Company has the option of selecting a LIBOR period that determines the rate at which interest can accrue on the Term Loan as well as the period in which interest payments are made.

The 2025 Term Loan is secured by a first priority lien on the Term Priority Collateral and a second priority lien on the ABL Priority Collateral. Certain excluded assets will not be included in the Term Priority Collateral and the Revolving Priority Collateral. The Term Loan is guaranteed jointly, severally, fully and unconditionally by the Company’s active United States subsidiaries.

As of March 31, 2018, the outstanding balance on the Term Loan, net of \$38.1 million of unamortized debt issuance costs, was \$931.9 million.

2025 Senior Notes

On October 25, 2017, Beacon Escrow Corporation, a wholly owned subsidiary of the Company (the “Escrow Issuer”), completed a private offering of \$1.30 billion aggregate principal amount of 4.875% Senior Notes due 2025 at an issue price of 100%. The 2025 Senior Notes bear interest at a rate of 4.875% per annum, payable semi-annually in arrears,

beginning May 1, 2018. The Company anticipates repaying the 2025 Senior Notes at the maturity date of November 1, 2025. Per the terms of the Escrow Agreement, the net proceeds from the 2025 Senior Notes remained in escrow until they were used to fund a portion of the purchase price of the Allied Acquisition payable at closing on January 2, 2018.

Upon closing of the Allied Acquisition on January 2, 2018, (i) the Escrow Issuer merged with and into the Company, and the Company assumed all obligations under the 2025 Senior Notes; and (ii) all existing domestic subsidiaries of the Company (including the entities acquired in the Allied Acquisition) became guarantors of the 2025 Senior Notes

As of March 31, 2018, the outstanding balance on the 2025 Senior Notes, net of \$21.3 million of unamortized debt issuance costs, was \$1.28 billion.

Financing - RSG Acquisition

In connection with the RSG Acquisition, the Company entered into various financing arrangements totaling \$1.45 billion, including an asset-based revolving line of credit ("2020 ABL") of \$700.0 million (\$350.0 million of which was drawn at closing) and

a \$450.0 million term loan (“2022 Term Loan”). The Company also raised an additional \$300.0 million through the issuance of senior notes (the “2023 Senior Notes”).

The proceeds from these financing arrangements were used to provide working capital and funds for other general corporate purposes, to refinance or otherwise extinguish all third-party indebtedness for borrowed money under Company’s and RSG’s existing senior secured credit facilities and RSG’s unsecured senior notes due 2020, to finance the acquisition, and to pay fees and expenses associated with the RSG acquisition. The Company incurred debt issuance costs totaling approximately \$31.3 million related to the 2020 ABL, 2022 Term Loan and 2023 Senior Notes.

2020 ABL

On October 1, 2015, the Company entered into a \$700.0 million asset-based revolving line of credit with Wells Fargo Bank, N.A. and a syndicate of other lenders. The 2020 ABL had an original maturity date of October 2, 2010 and consisted of revolving loans in both the United States (“2020 U.S. Revolver”) in the amount of \$670.0 million and Canada (“Canada Revolver”) in the amount of \$30.0 million. The 2020 ABL had various borrowing tranches with an interest rate based on a LIBOR rate (with a floor) plus a fixed spread. The full balance of the 2020 ABL was paid on January 2, 2018 in conjunction with the Allied Acquisition.

2022 Term Loan

On October 1, 2015, the Company entered into a \$450.0 million Term Loan with Citibank N.A., and a syndicate of other lenders. The 2022 Term Loan required quarterly principal payments in the amount of \$1.1 million, with the remaining outstanding principal to be paid on its original maturity date of October 1, 2022. The interest rate was based on a LIBOR rate (with a floor) plus a fixed spread. The Company had the option of selecting a LIBOR period that determined the rate at which interest would accrue, as well as the period in which interest payments are made. The full balance of the 2022 Term Loan was paid on January 2, 2018 in conjunction with the Allied Acquisition, including the write-off of \$0.7 million in debt issuance costs.

2023 Senior Notes

On October 1, 2015, the Company raised \$300.0 million by issuing senior notes due 2023. The 2023 Senior Notes have a coupon rate of 6.38% per annum and are payable semi-annually in arrears, beginning April 1, 2016. There are early payment provisions in the indenture in which the Company would be subject to “make whole” provisions. The Company anticipates repaying the notes at the maturity date of October 1, 2023.

The 2023 Senior Notes are guaranteed jointly, severally, fully and unconditionally by the Company’s active United States subsidiaries.

As of March 31, 2018, the outstanding balance on the 2023 Senior Notes, net of \$7.0 million of unamortized debt issuance costs, was \$293.0 million.

Equipment Financing Facilities and Other

As of March 31, 2018, the Company had a \$13.3 million outstanding under equipment financing facilities, with fixed interest rates ranging from 2.33% to 3.25% and payments due through September 2021.

As of March 31, 2018, the Company had \$14.9 million of capital lease obligations outstanding. These leases have interest rates ranging from 2.72% to 10.39% with payments due through November 2021.

9. Commitments and Contingencies

Operating Leases

The Company mostly operates in leased facilities, which are accounted for as operating leases. The leases typically provide for a base rent plus real estate taxes. Certain of the leases provide for escalating rents over the lives of the leases and rent expense is recognized over the terms of those leases on a straight-line basis.

At March 31, 2018, the minimum rental commitments under all non-cancelable operating leases with initial or remaining terms of more than one year were as follows (in thousands):

19

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| Year Ending September 30, | |
|------------------------------|-----------|
| 2018 (April - Sept) | \$39,484 |
| 2019 | 99,398 |
| 2020 | 86,089 |
| 2021 | 75,097 |
| 2022 | 55,207 |
| Thereafter | 135,396 |
| Total minimum lease payments | \$490,671 |

For the three months ended March 31, 2018 and 2017, rent expense was \$28.5 million and \$14.7 million, respectively. For the six months ended March 31, 2018 and 2017, rent expense was \$43.7 million and \$28.9 million, respectively. Sublet income was immaterial for each of these periods.

Contingencies

The Company is subject to loss contingencies pursuant to various federal, state and local environmental laws and regulations; however, the Company is not aware of any reasonably possible losses that would have a material impact on its results of operations, financial position, or liquidity. Potential loss contingencies include possible obligations to remove or mitigate the effects on the environment of the placement, storage, disposal or release of certain chemical or other substances by the Company or by other parties. In connection with its acquisitions, the Company's practice is to request indemnification for any and all known material liabilities of significance as of the respective dates of acquisition. Historically, environmental liabilities have not had a material impact on the Company's results of operations, financial position or liquidity.

The Company is subject to litigation from time to time in the ordinary course of business; however the Company does not expect the results, if any, to have a material adverse impact on its results of operations, financial position or liquidity.

10. Geographic Data

The following tables summarize certain geographic information for the periods presented (in thousands):

| | Three Months Ended | | Six Months Ended | |
|-----------------|--------------------|-----------|-------------------|-------------|
| | March 31, 2018 | 2017 | March 31, 2018 | 2017 |
| Net sales | | | | |
| U.S. | \$1,404,617 | \$849,226 | \$2,480,879 | \$1,809,461 |
| Canada | 21,008 | 21,498 | 66,725 | 63,447 |
| Total net sales | \$1,425,625 | \$870,724 | \$2,547,604 | \$1,872,908 |

| | March 31, | September 30, | March |
|-------------------------|-------------|---------------|-------------|
| | 2018 | 2017 | 31, 2017 |
| Long-lived assets | | | |
| U.S. | \$1,499,860 | \$507,236 | \$511,507 |
| Canada | 13,125 | 13,446 | 12,841 |
| Total long-lived assets | \$1,512,985 | \$520,682 | \$524,348 |

11. Fair Value Measurement

As of March 31, 2018, the carrying amount of cash and cash equivalents, accounts receivable, prepaid and other current assets, accounts payable and accrued expenses approximated fair value because of the short-term nature of these instruments. The Company measures its cash equivalents at amortized cost, which approximates fair value based upon quoted market prices (Level 1).

As of March 31, 2018, based upon recent trading prices (Level 2 — market approach), the fair value of the Company's \$300.0 million Senior Notes due in 2023 was \$317.0 million and the fair value of the \$1.30 billion Senior Notes due 2025 was \$1.24 billion.

As of March 31, 2018, the fair value of the Company's term loan and revolving asset-based line of credit approximated the amount outstanding. The Company estimates the fair value of its Senior Secured Credit Facility by discounting the future cash flows of each instrument using estimated market rates of debt instruments with similar maturities and credit profiles (Level 3).

12. Income Taxes

On December 22, 2017, the U.S. federal government officially signed into law the Tax Cut and Jobs Act of 2017 ("TCJA"). ASC 740, Accounting for Income Taxes, requires companies to recognize the effect of tax law changes in the period of enactment even though the effective date for most provisions is for tax years beginning after December 31, 2017, or in the case of certain other provisions, January 1, 2018. Though certain key aspects of the new law are effective January 1, 2018 and have an immediate accounting effect, other significant provisions are not effective or may not result in accounting effects for September 30 fiscal year-end companies until October 1, 2018.

Given the significance of the legislation, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), which allows registrants to record provisional amounts during a one year "measurement period" similar to that used when accounting for business combinations. Per SAB 118, the measurement period is deemed to have an earlier end date when the registrant has obtained, prepared and analyzed the information necessary to finalize its accounting. During the measurement period, impacts of the updated tax law are expected to be recorded at the time a reasonable estimate for all, or a portion, of the effects can be made, and provisional amounts can be recognized and adjusted as information becomes available, prepared or analyzed.

SAB 118 states, that at each reporting period, companies must disclose the effects of the TCJA for areas where accounting is complete, disclose provisional amounts (or adjustments to provisional amounts) for the effects of the TCJA areas where accounting is not complete but a reasonable estimate has been determined, and confirm areas where a reasonable estimate of the effects cannot yet be made, and therefore taxes are reflected in accordance with law prior to the enactment of the TCJA.

As of March 31, 2018, the Company was still assessing the overall impact that the TCJA will have on its financial statements and related disclosures; however, the Company was able to make the following reasonable estimates on the impact of the corporate taxation changes from the TCJA:

- The Company has a blended federal corporate income tax rate for fiscal year 2018 of 24.5%. This transitional tax rate stems from Section 15 of the Internal Revenue Code that states if the tax rate changes in during a tax year, the tax rate for the full year is calculated using the prior and revised tax rates on a proportional basis using the number of days under each legislated rate. For 2019, the Company will have a federal corporate income tax rate of 21%.
- The Company initially remeasured all its deferred tax assets and liabilities based on the revised corporate income tax rate (21%). Due to the Company's status as a non-calendar year-end filer, it was required to perform additional analysis to distinguish those deferred taxes that will be realized during fiscal year 2018 at the blended federal corporate income tax rate of 24.5% from those that will be realized in future years at the revised rate. As a result, the Company recognized a provisional decrease of its deferred tax liabilities and related income tax benefit of \$1.5 million and \$48.9 million in its consolidated statement of operations for the three and six months ended March 31, 2018, respectively. The Company will continue to refine its deferred tax remeasurement calculation and assess the related impact, which potentially could result in additional adjustments.
- The Company estimated the impact of the mandatory repatriation transition tax on the net accumulated earnings and profits of the Company's foreign subsidiary, Beacon Roofing Supply Canada Company ("BRSCC"). As a result, the Company recognized a provisional expense of \$0.9 million for the one-time transition tax liability in its consolidated statement of operations for the three and six months ended March 31, 2018. The Company has not yet finalized its calculation of the repatriation transition tax, as it continues to analyze of the amount of BRSCC earnings held in cash and other specified assets that had been previously deferred from U.S. federal taxation.

State conformity to the TCJA law changes has not been communicated by the state and local jurisdictions at this time; therefore, the Company has not made any provisional adjustments related to the potential impact in its financial statements. The Company will continue to account for items where a reasonable estimate of the impact could not be assessed as of March 31, 2018 under the guidance that was in effect immediately prior to the enactment of the TCJA, ASC 740, Accounting for Income Taxes.

13. Supplemental Guarantor Information

The 2023 Senior Notes and 2025 Senior Notes are guaranteed jointly and severally by all of the United States subsidiaries of the Company (collectively, the “Guarantors”), and not by the Canadian subsidiaries of the Company. Such guarantees are full and

unconditional. Supplemental condensed consolidating financial information of the Company, including such information for the Guarantors, is presented below. The information is presented in accordance with the requirements of Rule 3-10 under the SEC's Regulation S-X. The financial information may not necessarily be indicative of results of operations, cash flows or financial position had the non-guarantor subsidiaries operated as independent entities. Investments in subsidiaries are presented using the equity method of accounting. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions. Separate financial statements of the Guarantors are not provided as the consolidating financial information contained herein provides a more meaningful disclosure to allow investors to determine the nature of the assets held by, and the operations of, the combined groups.

BEACON ROOFING SUPPLY, INC.

Condensed Consolidating Balance Sheets

(Unaudited; In thousands)

| | March 31, 2018 | | | | |
|--|--------------------|---------------------------|---------------------------|---------------------------|---------------------|
| | | | Non- | | |
| | Parent | Guarantor Subsidiaries | Guarantor Subsidiaries | Eliminations and Other | Consolidated |
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$- | \$ 18,746 | \$ 8,196 | \$(10,942) | \$ 16,000 |
| Accounts receivable, net | - | 816,058 | 17,905 | (1,140) | 832,823 |
| Inventories, net | - | 978,852 | 26,725 | - | 1,005,577 |
| Prepaid expenses and other current assets | 35,646 | 199,947 | 4,722 | - | 240,315 |
| Total current assets | 35,646 | 2,013,603 | 57,548 | (12,082) | 2,094,715 |
| Intercompany receivable, net | - | 1,284,455 | - | (1,284,455) | - |
| Investments in consolidated subsidiaries | 5,949,437 | - | - | (5,949,437) | - |
| Deferred income taxes, net | 19,902 | - | - | (19,902) | - |
| Property and equipment, net | 10,761 | 272,866 | 10,595 | - | 294,222 |
| Goodwill | - | 2,351,447 | 30,173 | - | 2,381,620 |
| Intangibles, net | - | 1,407,772 | 2,530 | - | 1,410,302 |
| Other assets, net | 1,243 | 268 | - | - | 1,511 |
| Total Assets | \$6,016,989 | \$7,330,411 | \$ 100,846 | \$(7,265,876) | \$ 6,182,370 |
| Liabilities and Stockholders' Equity | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$21,042 | \$572,222 | \$ 12,377 | \$(12,082) | \$ 593,559 |
| Accrued expenses | 61,788 | 281,265 | 4,997 | - | 348,050 |
| Current portions of long-term debt | 9,700 | 9,897 | - | - | 19,597 |
| Total current liabilities | 92,530 | 863,384 | 17,374 | (12,082) | 961,206 |
| Intercompany payable, net | 1,247,040 | - | 37,415 | (1,284,455) | - |
| Borrowings under revolving lines of credit, net | - | 424,528 | - | - | 424,528 |
| Long-term debt, net | 2,493,889 | - | - | - | 2,493,889 |
| Deferred income taxes, net | - | 110,614 | 389 | (19,902) | 91,101 |
| Long-term obligations under equipment financing and other, net | - | 18,313 | - | - | 18,313 |
| Other long-term liabilities | 814 | 9,729 | 74 | - | 10,617 |
| Total liabilities | 3,834,273 | 1,426,568 | 55,252 | (1,316,439) | 3,999,654 |
| Convertible preferred stock | 399,195 | - | - | - | 399,195 |

| | | | | | |
|--|-------------|-------------|------------|----------------|--------------|
| Total stockholders' equity | 1,783,521 | 5,903,843 | 45,594 | (5,949,437) | 1,783,521 |
| Total Liabilities and Stockholders' Equity | \$6,016,989 | \$7,330,411 | \$ 100,846 | \$(7,265,876) | \$ 6,182,370 |

23

BEACON ROOFING SUPPLY, INC.

Condensed Consolidating Balance Sheets

(Unaudited; In thousands)

| | September 30, 2017 | | | | |
|--|--------------------|---------------------------|---------------------------|---------------------------|---------------------|
| | | | Non- | | |
| | Parent | Guarantor Subsidiaries | Guarantor Subsidiaries | Eliminations and Other | Consolidated |
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$- | \$ 149,799 | \$ 1,582 | \$(13,131) | \$ 138,250 |
| Accounts receivable, net | - | 663,034 | 42,633 | (1,140) | 704,527 |
| Inventories, net | - | 527,226 | 24,698 | - | 551,924 |
| Prepaid expenses and other current assets | 4,195 | 198,817 | 6,126 | - | 209,138 |
| Total current assets | 4,195 | 1,538,876 | 75,039 | (14,271) | 1,603,839 |
| Intercompany receivable, net | - | 655,372 | - | (655,372) | - |
| Investments in consolidated subsidiaries | 3,160,273 | - | - | (3,160,273) | - |
| Deferred income taxes, net | 30,822 | - | - | (30,822) | - |
| Property and equipment, net | 6,610 | 138,955 | 10,564 | - | 156,129 |
| Goodwill | - | 1,220,812 | 31,174 | - | 1,251,986 |
| Intangibles, net | - | 426,187 | 2,882 | - | 429,069 |
| Other assets, net | 2,912 | 5,622 | - | - | 8,534 |
| Total Assets | \$3,204,812 | \$3,985,824 | \$ 119,659 | \$(3,860,738) | \$ 3,449,557 |
| Liabilities and Stockholders' Equity | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$27,174 | \$468,891 | \$ 21,903 | \$(14,271) | \$ 503,697 |
| Accrued expenses | 51,183 | 204,173 | 5,941 | - | 261,297 |
| Current portions of long-term obligations | 4,500 | 9,641 | - | - | 14,141 |
| Total current liabilities | 82,857 | 682,705 | 27,844 | (14,271) | 779,135 |
| Intercompany payable, net | 618,881 | - | 36,491 | (655,372) | - |
| Borrowings under revolving lines of credit, net | - | - | 3,205 | - | 3,205 |
| Long-term debt, net | 721,268 | - | - | - | 721,268 |
| Deferred income taxes, net | - | 168,209 | 996 | (30,822) | 138,383 |
| Long-term obligations under equipment financing and other, net | - | 23,147 | 66 | - | 23,213 |
| Other long-term liabilities | - | 2,547 | - | - | 2,547 |
| Total liabilities | 1,423,006 | 876,608 | 68,602 | (700,465) | 1,667,751 |
| Total stockholders' equity | 1,781,806 | 3,109,216 | 51,057 | (3,160,273) | 1,781,806 |

| | | | | | |
|--|-------------|-------------|------------|----------------|-------------|
| Total Liabilities and Stockholders' Equity | \$3,204,812 | \$3,985,824 | \$ 119,659 | \$(3,860,738) | \$3,449,557 |
|--|-------------|-------------|------------|----------------|-------------|

BEACON ROOFING SUPPLY, INC.

Condensed Consolidating Balance Sheets

(Unaudited; In thousands)

| | March 31, 2017 | | | | |
|--|--------------------|---------------------------|---------------------------|---------------------------|---------------------|
| | | | Non- | | |
| | Parent | Guarantor Subsidiaries | Guarantor Subsidiaries | Eliminations and Other | Consolidated |
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$- | \$24,181 | \$ 1,946 | \$(16,115) | \$ 10,012 |
| Accounts receivable, net | - | 490,724 | 15,437 | 225 | 506,386 |
| Inventories, net | - | 556,463 | 24,426 | - | 580,889 |
| Prepaid expenses and other current assets | 28,952 | 184,764 | 3,673 | - | 217,389 |
| Total current assets | 28,952 | 1,256,132 | 45,482 | (15,890) | 1,314,676 |
| Intercompany receivable, net | - | 961,450 | - | (961,450) | - |
| Investments in consolidated subsidiaries | 2,959,542 | - | - | (2,959,542) | - |
| Deferred income taxes, net | 57,419 | - | - | (57,419) | - |
| Property and equipment, net | 5,614 | 140,918 | 9,848 | - | 156,380 |
| Goodwill | - | 1,198,805 | 29,254 | - | 1,228,059 |
| Intangibles, net | - | 436,513 | 2,994 | - | 439,507 |
| Other assets, net | 1,242 | 269 | - | - | 1,511 |
| Total Assets | \$3,052,769 | \$3,994,087 | \$ 87,578 | \$(3,994,301) | \$ 3,140,133 |
| Liabilities and Stockholders' Equity | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$27,209 | \$468,144 | \$ 6,865 | \$(15,890) | \$ 486,328 |
| Accrued expenses | 26,226 | 103,045 | 1,993 | - | 131,264 |
| Current portions of long-term obligations | 4,500 | 9,514 | - | - | 14,014 |
| Total current liabilities | 57,935 | 580,703 | 8,858 | (15,890) | 631,606 |
| Intercompany payable, net | 923,565 | - | 37,885 | (961,450) | - |
| Borrowings under revolving lines of credit | - | 269,124 | - | - | 269,124 |
| Long-term debt, net | 722,101 | - | - | - | 722,101 |
| Deferred income taxes, net | - | 194,556 | 358 | (57,419) | 137,495 |
| Long-term obligations under equipment financing and other, net | - | 28,221 | 46 | - | 28,267 |
| Other long-term liabilities | - | 2,372 | - | - | 2,372 |
| Total liabilities | 1,703,601 | 1,074,976 | 47,147 | (1,034,759) | 1,790,965 |
| Total stockholders' equity | 1,349,168 | 2,919,111 | 40,431 | (2,959,542) | 1,349,168 |

| | | | | | |
|--|-------------|-------------|-----------|---------------|-------------|
| Total Liabilities and Stockholders' Equity | \$3,052,769 | \$3,994,087 | \$ 87,578 | \$(3,994,301) | \$3,140,133 |
|--|-------------|-------------|-----------|---------------|-------------|

BEACON ROOFING SUPPLY, INC.

Condensed Consolidating Statements of Operations

(Unaudited; In thousands)

Three Months Ended March 31, 2018

| | Guarantor | | Non-Guarantor Eliminations | | Consolidated |
|---|------------|--------------|----------------------------|-----------|--------------|
| | Parent | Subsidiaries | Subsidiaries | and Other | |
| Net sales | \$- | \$ 1,404,617 | \$ 21,008 | \$ - | \$ 1,425,625 |
| Cost of products sold | - | 1,070,605 | 16,643 | - | 1,087,248 |
| Gross profit | - | 334,012 | 4,365 | - | 338,377 |
| Operating expense | 3,115 | 384,245 | 8,415 | - | 395,775 |
| Intercompany charges (income) | (1,477) | 1,477 | - | - | - |
| Income (loss) from operations | (1,638) | (51,710) | (4,050) | - | (57,398) |
| Interest expense, financing costs, and other | 47,220 | 3,807 | (11,457) | - | 39,570 |
| Intercompany interest expense (income) | (5,181) | 4,804 | 377 | - | - |
| Income (loss) before provision for income taxes | (43,677) | (60,321) | 7,030 | - | (96,968) |
| Provision for (benefit from) income taxes | (10,469) | (18,575) | (1,269) | - | (30,313) |
| Income (loss) before equity in net income of subsidiaries | (33,208) | (41,746) | 8,299 | - | (66,655) |
| Equity in net income of subsidiaries | (33,447) | - | - | 33,447 | - |
| Net income (loss) | \$(66,655) | \$(41,746) | \$ 8,299 | \$ 33,447 | \$(66,655) |

Three Months Ended March 31, 2017

| | Guarantor | | Non-Guarantor Eliminations | | Consolidated |
|---|-----------|--------------|----------------------------|-----------|--------------|
| | Parent | Subsidiaries | Subsidiaries | and Other | |
| Net sales | \$- | \$ 849,226 | \$ 21,498 | \$ - | \$ 870,724 |
| Cost of products sold | - | 649,595 | 16,652 | - | 666,247 |
| Gross profit | - | 199,631 | 4,846 | - | 204,477 |
| Operating expense | 7,010 | 193,448 | 7,075 | - | 207,533 |
| Intercompany charges (income) | (12,555) | 11,993 | 562 | - | - |
| Income (loss) from operations | 5,545 | (5,810) | (2,791) | - | (3,056) |
| Interest expense, financing costs, and other | 3,983 | 8,003 | 282 | - | 12,268 |
| Intercompany interest expense (income) | (5,089) | 5,089 | - | - | - |
| Income (loss) before provision for income taxes | 6,651 | (18,902) | (3,073) | - | (15,324) |
| Provision for (benefit from) income taxes | 2,444 | (7,568) | (844) | - | (5,968) |
| Income (loss) before equity in net income of subsidiaries | 4,207 | (11,334) | (2,229) | - | (9,356) |
| Equity in net income of subsidiaries | (13,563) | - | - | 13,563 | - |

| | | | | | |
|-------------------|-------------|--------------|-------------|-----------|-------------|
| Net income (loss) | \$ (9,356) | \$ (11,334) | \$ (2,229) | \$ 13,563 | \$ (9,356) |
|-------------------|-------------|--------------|-------------|-----------|-------------|

26

BEACON ROOFING SUPPLY, INC.

Condensed Consolidating Statements of Operations

(Unaudited; In thousands)

Six Months Ended March 31, 2018

Non-

| | Parent | Subsidiaries | Subsidiaries | Eliminations and Other | Consolidated |
|---|----------|--------------|--------------|---------------------------|--------------|
| Net sales | \$- | \$2,480,879 | \$ 66,725 | \$ - | \$2,547,604 |
| Cost of products sold | - | 1,887,041 | 52,433 | - | 1,939,474 |
| Gross profit | - | 593,838 | 14,292 | - | 608,130 |
| Operating expense | 3,438 | 595,000 | 17,994 | - | 616,432 |
| Intercompany charges (income) | (584) | 584 | - | - | - |
| Income (loss) from operations | (2,854) | (1,746) | (3,702) | - | (8,302) |
| Interest expense, financing costs, and other | 57,296 | 4,632 | 210 | - | 62,138 |
| Intercompany interest expense (income) | (10,889) | 10,125 | 764 | - | - |
| Income (loss) before provision for income taxes | (49,261) | (16,503) | (4,676) | - | (70,440) |
| Provision for (benefit from) income taxes | (4,948) | (65,247) | (1,186) | - | (71,381) |
| Income (loss) before equity in net income of subsidiaries | (44,313) | 48,744 | (3,490) | - | 941 |
| Equity in net income of subsidiaries | 45,254 | - | - | (45,254) | - |
| Net income (loss) | \$941 | \$48,744 | \$ (3,490) | \$ (45,254) | \$ 941 |

Six Months Ended March 31, 2017

Non-

| | Parent | Subsidiaries | Subsidiaries | Eliminations and Other | Consolidated |
|---|----------|--------------|--------------|---------------------------|--------------|
| Net sales | \$- | \$1,809,461 | \$ 63,447 | \$ - | \$1,872,908 |
| Cost of products sold | - | 1,368,129 | 49,235 | - | 1,417,364 |
| Gross profit | - | 441,332 | 14,212 | - | 455,544 |
| Operating expense | 15,656 | 380,521 | 15,466 | - | 411,643 |
| Intercompany charges (income) | (24,508) | 23,392 | 1,116 | - | - |
| Income (loss) from operations | 8,852 | 37,419 | (2,370) | - | 43,901 |
| Interest expense, financing costs, and other | 19,337 | 5,458 | 1,047 | - | 25,842 |
| Intercompany interest expense (income) | (10,682) | 10,682 | - | - | - |
| Income (loss) before provision for income taxes | 197 | 21,279 | (3,417) | - | 18,059 |

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| | | | | | |
|---|----------|----------|-------------|--------------|----------|
| Provision for (benefit from) income taxes | (410) | 8,334 | (939) | - | 6,985 |
| Income (loss) before equity in net income of subsidiaries | 607 | 12,945 | (2,478) | - | 11,074 |
| Equity in net income of subsidiaries | 10,467 | - | - | (10,467) | - |
| Net income (loss) | \$11,074 | \$12,945 | \$ (2,478) | \$ (10,467) | \$11,074 |

BEACON ROOFING SUPPLY, INC.

Condensed Consolidating Statements of Comprehensive Income

(Unaudited; In thousands)

Three Months Ended March 31, 2018

| | Guarantor | | Non-Guarantor Subsidiaries | Eliminations and Other | Consolidated |
|---|-------------|--------------|-------------------------------|---------------------------|--------------|
| | Parent | Subsidiaries | | | |
| Net income (loss) | \$ (66,655) | \$ (41,746) | \$ 8,299 | \$ 33,447 | \$ (66,655) |
| Other comprehensive income (loss): | | | | | |
| Foreign currency translation adjustment | (2,028) | - | (2,028) | 2,028 | (2,028) |
| Total other comprehensive income (loss) | (2,028) | - | (2,028) | 2,028 | (2,028) |
| Comprehensive income (loss) | \$ (68,683) | \$ (41,746) | \$ 6,271 | \$ 35,475 | \$ (68,683) |

Three Months Ended March 31, 2017

| | Guarantor | | Non-Guarantor Subsidiaries | Eliminations and Other | Consolidated |
|---|------------|--------------|-------------------------------|---------------------------|--------------|
| | Parent | Subsidiaries | | | |
| Net income (loss) | \$ (9,356) | \$ (11,334) | \$ (2,229) | \$ 13,563 | \$ (9,356) |
| Other comprehensive income (loss): | | | | | |
| Foreign currency translation adjustment | 813 | - | 813 | (813) | 813 |
| Total other comprehensive income (loss) | 813 | - | 813 | (813) | 813 |
| Comprehensive income (loss) | \$ (8,543) | \$ (11,334) | \$ (1,416) | \$ 12,750 | \$ (8,543) |

Six Months Ended March 31, 2018

| | Guarantor | | Non-Guarantor Subsidiaries | Eliminations and Other | Consolidated |
|---|------------|--------------|-------------------------------|---------------------------|--------------|
| | Parent | Subsidiaries | | | |
| Net income (loss) | \$941 | \$ 48,744 | \$ (3,490) | \$ (45,254) | \$ 941 |
| Other comprehensive income (loss): | | | | | |
| Foreign currency translation adjustment | (1,971) | - | (1,971) | 1,971 | (1,971) |
| Total other comprehensive income (loss) | (1,971) | - | (1,971) | 1,971 | (1,971) |
| Comprehensive income (loss) | \$ (1,030) | \$ 48,744 | \$ (5,461) | \$ (43,283) | \$ (1,030) |

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Six Months Ended March 31, 2017

Non-

| | Guarantor | Guarantor | Eliminations | |
|---|-----------|--------------|--------------|------------------------|
| | Parent | Subsidiaries | Subsidiaries | and Other |
| | | | | Consolidated |
| Net income (loss) | \$11,074 | \$ 12,945 | \$ (2,478) | \$ (10,467) \$ 11,074 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustment | (839) | - | (839) | 839 (839) |
| Total other comprehensive income (loss) | (839) | - | (839) | 839 (839) |
| Comprehensive income (loss) | \$10,235 | \$ 12,945 | \$ (3,317) | \$ (9,628) \$ 10,235 |

BEACON ROOFING SUPPLY, INC.

Condensed Consolidating Statements of Cash Flows

(Unaudited; In thousands)

| | Six Months Ended March 31, 2018 | | | | Consolidated |
|---|---------------------------------|---------------------------|---------------------------|------------|--------------|
| | Non- | | Eliminations and Other | | |
| | Parent | Guarantor Subsidiaries | | | |
| Net cash provided by (used in) operating activities | \$(47,488) | \$77,948 | \$ 9,289 | \$ 217 | \$ 39,966 |
| Investing Activities | | | | | |
| Purchases of property and equipment | (5,050) | (18,524) | (1,259) | - | (24,833) |
| Acquisition of businesses, net | (2,726,561) | - | - | - | (2,726,561) |
| Proceeds from the sale of assets | - | 398 | 15 | - | 413 |
| Intercompany activity | 606,865 | - | - | (606,865) | - |
| Net cash provided by (used in) investing activities | (2,124,746) | (18,126) | (1,244) | (606,865) | (2,750,981) |
| Financing Activities | | | | | |
| Borrowings under revolving lines of credit | - | 1,514,102 | 16,565 | - | 1,530,667 |
| Repayments under revolving lines of credit | - | (1,077,744) | (19,719) | - | (1,097,463) |
| Borrowings under term loan | 970,000 | - | - | - | 970,000 |
| Repayments under term loan | (441,000) | - | - | - | (441,000) |
| Repayments under equipment financing facilities and other | - | (5,643) | - | - | (5,643) |
| Borrowings under senior notes | 1,300,000 | - | - | - | 1,300,000 |
| Payment of debt issuance costs | (55,893) | (11,830) | - | - | (67,723) |
| Proceeds from issuance of convertible preferred stock | 400,000 | - | - | - | 400,000 |
| Payment of stock issuance costs | (1,279) | - | - | - | (1,279) |
| Payment of dividends on preferred stock | (978) | - | - | - | (978) |
| Proceeds from issuance of common stock related to equity awards | 5,317 | - | - | - | 5,317 |
| Taxes paid related to net share settlement of equity awards | (3,933) | - | - | - | (3,933) |
| Intercompany activity | - | (609,760) | 923 | 608,837 | - |
| Net cash provided by (used in) financing activities | 2,172,234 | (190,875) | (2,231) | 608,837 | 2,587,965 |
| | - | - | 800 | - | 800 |

Effect of exchange rate changes on cash and cash equivalents

| | | | | | |
|--|-----|------------|----------|--------------|------------|
| Net increase (decrease) in cash and cash equivalents | - | (131,053) | 6,614 | 2,189 | (122,250) |
| Cash and cash equivalents, beginning of period | - | 149,799 | 1,582 | (13,131) | 138,250 |
| Cash and cash equivalents, end of period | \$- | \$18,746 | \$ 8,196 | \$ (10,942) | \$16,000 |

29

BEACON ROOFING SUPPLY, INC.

Condensed Consolidating Statements of Cash Flows

(Unaudited; In thousands)

| | Six Months Ended March 31, 2017 | | | | |
|--|---------------------------------|--------------|--------------|--------------|--------------|
| | Non- | | | | |
| | Guarantor | Guarantor | Eliminations | | |
| | Parent | Subsidiaries | Subsidiaries | and Other | Consolidated |
| Net cash provided by (used in) operating activities | \$ (29,347) | \$ 181,934 | \$ 5,121 | \$ (7,178) | \$ 150,530 |
| Investing Activities | | | | | |
| Purchases of property and equipment | (1,709) | (21,742) | (780) | - | (24,231) |
| Acquisition of businesses | (58,359) | - | - | - | (58,359) |
| Proceeds from the sale of assets | - | 1,274 | 11 | - | 1,285 |
| Intercompany activity | 83,397 | - | - | (83,397) | - |
| Net cash provided by (used in) investing activities | 23,329 | (20,468) | (769) | (83,397) | (81,305) |
| Financing Activities | | | | | |
| Borrowings under revolving lines of credit | - | 852,583 | 4,516 | - | 857,099 |
| Repayments under revolving lines of credit | - | (939,438) | (9,032) | - | (948,470) |
| Repayments under term loan | (1,125) | - | - | - | (1,125) |
| Repayments under equipment financing facilities and other | - | (5,365) | - | - | (5,365) |
| Proceeds from issuance of common stock | 7,840 | - | - | - | 7,840 |
| Taxes paid related to net share settlement of equity awards | (697) | - | - | - | (697) |
| Intercompany activity | - | (82,512) | (885) | 83,397 | - |
| Net cash provided by (used in) financing activities | 6,018 | (174,732) | (5,401) | 83,397 | (90,718) |
| Effect of exchange rate changes on cash and cash equivalents | - | - | 119 | - | 119 |
| Net increase (decrease) in cash and cash equivalents | - | (13,266) | (930) | (7,178) | (21,374) |
| Cash and cash equivalents, beginning of period | - | 37,447 | 2,876 | (8,937) | 31,386 |
| Cash and cash equivalents, end of period | \$- | \$ 24,181 | \$ 1,946 | \$ (16,115) | \$ 10,012 |

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

The following discussion and analysis should be read in conjunction with Management's Discussion and Analysis included in our 2017 Annual Report on Form 10-K and our condensed consolidated financial statements and the notes thereto included elsewhere in this document. Unless otherwise indicated, references to "2018" refer to the three and six months ended March 31, 2018 being discussed and references to "2017" refer to the three and six months ended March 31, 2017 being discussed. We do not undertake, and specifically disclaim, any obligation to update any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.

Overview

We are the largest publicly traded distributor of residential and non-residential roofing materials in the United States and Canada. We also distribute complementary building products, including siding, windows, specialty exterior building products, insulation, waterproofing systems, wallboard and acoustical ceiling tiles. We are among the oldest and most established distributors in the industry. We purchase products from a large number of manufacturers and then distribute these goods to a customer base consisting of contractors and, to a lesser extent, general contractors, retailers, and building materials suppliers.

As of March 31, 2018, we operated 588 branches in 50 states throughout the United States and 6 provinces in Canada. We stock one of the most extensive assortments of high quality branded products in the industry, with approximately 70,000 SKUs available across our branch network, enabling us to deliver products to serve over 100,000 customers on a timely basis.

On January 2, 2018, we finalized acquisition of Allied Building Products Corp., a New Jersey corporation, and an affiliated entity (together "Allied") for \$2.625 billion, subject to certain working capital and other adjustments. Allied is one of the country's largest exterior and interior building products distributors and is headquartered in East Rutherford, New Jersey. Allied distributes products in 208 locations across 31 states in the U.S. and has a strong presence in New York, New Jersey, Florida, California, Hawaii and the upper Midwest. We believe the acquisition of Allied was a strategically and financially compelling transaction that expanded our geographic footprint, enhanced our scale and market position, diversified our product offerings, and will provide new growth opportunities and increase our long-term profitability.

Effective execution of both the sales and operating plans enables us to grow beyond the relative strength of the markets we serve. Our business model is a bottom-up approach, where each of our branches uses its regional knowledge and experience to assist with the development of a marketing plan and stocking a product mix that is best suited for its respective market. Local alignment with overall strategic goals provides the foundation for significant ownership of results at the branch level.

Our distinctive operational model combined with significant branch level autonomy differentiates us from the competition. We provide our customers with value-added services, including, but not limited to, job site delivery, custom designed tapered roofing systems, metal fabrication, and trade credit. We consider customer relations and our employees' knowledge of roofing and building materials to be vital to our ability to increase customer loyalty and maintain customer satisfaction. Our customers' business success can be enhanced when they are supported by our efficient and effective distribution network. We invest significant resources in professional development, management skills, product knowledge and operational proficiency. We pride ourselves on providing these capabilities developed on a foundation of continuous improvement driving service excellence, productivity and efficiencies.

We seek opportunities to expand our business operations through both acquisitions and organic growth (opening branches, growing sales with existing customers, adding new customers and introducing new products). Our main acquisition strategy is to target market leaders that do business in geographic areas that we currently do not service or that complement our existing regional operations. In addition to our acquisition of Allied, our recent success in

delivering on our growth strategy is highlighted by the following:

- On December 16, 2016, we purchased certain assets of BJ Supply Company, a distributor of roofing and related building products with 1 branch serving Pennsylvania and New Jersey and annual sales of \$4 million.
- On January 3, 2017, we acquired American Building & Roofing, Inc., a distributor of mainly residential roofing and related building products with 7 branches around Washington State and annual sales of \$36 million.
- On January 9, 2017, we acquired Eco Insulation Supply, a distributor of insulation and related accessories with 1 branch serving Connecticut, Southern New England and the New York City metropolitan area and annual sales of \$8 million.
- On March 1, 2017, we acquired Acme Building Materials, Inc., a distributor of residential roofing and related building products with 3 branches in Eastern Michigan and annual sales of \$13 million.

31

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On May 1, 2017, we purchased certain assets of Lowry's Inc., a distributor of waterproofing and concrete restoration materials with 11 branches operating in California, Arizona, Utah and Hawaii and annual sales of \$76 million. In addition, we opened one new branch in fiscal year 2018 and four new branches in fiscal year 2017. These new branch locations allow us to penetrate deeper into our existing markets and establish a greater presence. Although new greenfield locations impact our operating cost structure slightly in the near-term, we believe they are strategically located within markets that possess strong dynamics, thereby presenting us with an opportunity to quickly establish our presence and gain local market share.

Results of Operations

Comparison of the Three Months Ended March 31, 2018 and 2017

The following tables set forth consolidated statement of operations data and such data as a percentage of total net sales for the periods presented (in thousands, except for percentages):

| | Three Months Ended | |
|---|--------------------|-----------|
| | March 31, | |
| | 2018 | 2017 |
| Net sales | \$1,425,625 | \$870,724 |
| Cost of products sold | 1,087,248 | 666,247 |
| Gross profit | 338,377 | 204,477 |
| Operating expense | 395,775 | 207,533 |
| Income (loss) from operations | (57,398) | (3,056) |
| Interest expense, financing costs, and other | 39,570 | 12,268 |
| Income (loss) before provision for income taxes | (96,968) | (15,324) |
| Provision for (benefit from) income taxes | (30,313) | (5,968) |
| Net income (loss) | (66,655) | (9,356) |
| Dividends on preferred shares, declared | 6,000 | - |
| Net income (loss) attributable to common shareholders | (72,655) | (9,356) |

| | Three Months Ended | | | |
|---|--------------------|----|-------|----|
| | March 31, | | | |
| | 2018 | | 2017 | |
| Net sales | 100.0 | % | 100.0 | % |
| Cost of products sold | 76.3 | % | 76.5 | % |
| Gross profit | 23.7 | % | 23.5 | % |
| Operating expense | 27.8 | % | 23.8 | % |
| Income (loss) from operations | (4.1 | %) | (0.3 | %) |
| Interest expense, financing costs, and other | 2.8 | % | 1.4 | % |
| Income (loss) before provision for income taxes | (6.9 | %) | (1.7 | %) |
| Provision for (benefit from) income taxes | (2.2 | %) | (0.6 | %) |
| Net income (loss) | (4.7 | %) | (1.1 | %) |
| Dividends on preferred shares, declared | 0.4 | % | 0.0 | % |
| Net income (loss) attributable to common shareholders | (5.1 | %) | (1.1 | %) |

In managing our business, we consider all growth, including the opening of new branches, to be organic growth unless it results from an acquisition. When we refer to growth in existing markets or organic growth, we include growth from existing and newly opened branches but exclude 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. When we refer to regions, we are referring to our geographic regions.

As of March 31, 2018 , we had a total of 588 branches in operation. Our existing market calculations include 359 branches and exclude 229 branches because they were acquired after the start of the second quarter of fiscal year 2017. When we refer to our net product costs, we are referring to our invoice cost less the impact of short-term buying programs (also referred to as “special buys” given the manner in which they are offered).

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The following table summarizes our results of operations by market type (existing and acquired) for the periods presented (in thousands, except for percentages):

| | Existing Markets | | Acquired Markets | | Consolidated | |
|---------------------------------------|------------------------------|------------|------------------|---------|--------------|------------|
| | Three Months Ended March 31, | | | | | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Net sales | \$860,918 | \$862,035 | \$564,707 | \$8,689 | \$1,425,625 | \$870,724 |
| Gross profit | \$195,332 | \$202,267 | \$143,045 | \$2,210 | \$338,377 | \$204,477 |
| Gross margin | 22.7 % | 23.5 % | 25.3 % | 25.4 % | 23.7 % | 23.5 % |
| Operating expense ⁽¹⁾ | \$234,651 | \$205,544 | \$161,124 | \$1,989 | \$395,775 | \$207,533 |
| Operating expense as a % of net sales | 27.3 % | 23.8 % | 28.5 % | 22.9 % | 27.8 % | 23.8 % |
| Operating income (loss) | \$(39,319) | \$(3,277) | \$(18,079) | \$221 | \$(57,398) | \$(3,056) |
| Operating margin | (4.6 %) | (0.4 %) | (3.2 %) | 2.5 % | (4.0 %) | (0.4 %) |

¹ During 2018 and 2017, we recorded amortization expense related to intangible assets recorded under purchase accounting of \$37.1 million (\$20.7 million from acquired markets) and \$20.3 million (immaterial amount from acquired markets), respectively. In addition, total operating expense for 2018 and 2017 included non-recurring charges \$28.3 million (immaterial amount from acquired markets) and \$1.6 million (none from acquired markets), respectively, for the recognition of costs related to acquisitions.

Net Sales

Consolidated net sales increased \$554.9 million, or 63.7%, to \$1.43 billion in 2018, up from \$870.7 million in 2017. Existing market sales decreased \$1.1 million, or 0.1%, over the same comparative period. We believe the decrease in our 2018 existing market sales was influenced primarily by the following factors:

- higher prior year net sales in certain regions related to multiple hail storm events and hurricane Matthew; and
- lower sales volume in Midwestern, Mid-Atlantic, and Northeast markets as a result of harsh winter weather; partially offset by:

- higher pricing across all product categories;
- high demand in Florida and Texas following hurricanes Irma and Harvey and demand increases in California and our insulation businesses; and
- strong growth within complementary products, particularly in our Southwest and West regions.

Net sales within our acquired markets were \$564.7 million in 2018, an increase from 2017 due to the impact from recent acquisitions.

We estimate the impact of inflation or deflation on our sales and gross profit by looking at changes in our average selling prices and gross margins (discussed below). Average overall selling prices in existing markets were up approximately 2% in 2018 compared to 2017, driven primarily price increases across all product categories and highlighted by an increase in complementary product pricing of over 5%.

Existing markets net sales by geographical region increased (decreased) from 2017 to 2018 as follows: Northeast 1.0%; Mid-Atlantic (7.7%); Southeast 14.7%; Southwest (4.2%); Midwest (11.0%); West 12.7%; and Canada (2.3)%. These variations were primarily caused by short-term factors such as local market conditions, weather conditions and storm activity.

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Product group sales for our existing markets were as follows (in thousands, except for percentages):

| | Three Months Ended March 31, | | 2017 | | Change | |
|----------------------------------|------------------------------|---------|-----------|---------|------------|---------|
| | 2018 | | 2017 | | \$ | % |
| | Net Sales | % | Net Sales | % | | |
| Residential roofing products | \$461,311 | 53.6 % | \$479,435 | 55.6 % | \$(18,124) | (3.8 %) |
| Non-residential roofing products | 248,209 | 28.8 % | 243,893 | 28.3 % | 4,316 | 1.8 % |
| Complementary building products | 151,398 | 17.6 % | 138,707 | 16.1 % | 12,691 | 9.1 % |
| Total existing market sales | \$860,918 | 100.0 % | \$862,035 | 100.0 % | \$(1,117) | (0.1 %) |

33

For 2018, our acquired markets recognized sales of \$118.3 million, \$83.5 million and \$362.9 million in residential roofing products, non-residential roofing products and complementary building products, respectively. The combination of our 2018 existing market sales of \$860.9 million plus the sales from acquired markets of \$564.7 million equals our total 2018 sales of \$1.43 billion. We believe the existing market information is useful to investors because it helps explain organic growth or decline.

Gross Profit

Gross profit and gross margin for our consolidated and existing markets were as follows (in thousands, except for percentages):

| | Three Months Ended | | Change ¹ | |
|---------------------------------|--------------------|-----------|---------------------|---------|
| | March 31, 2018 | 2017 | \$ | % |
| Gross profit - consolidated | \$338,377 | \$204,477 | \$133,900 | 65.5% |
| Gross profit - existing markets | 195,332 | 202,267 | (6,935) | (3.4 %) |
| Gross margin - consolidated | 23.7 % | 23.5 % | N/A | 0.2 % |
| Gross margin - existing markets | 22.7 % | 23.5 % | N/A | (0.8 %) |

¹ Percentage changes for dollar amounts represent the ratable increase or decrease from period-to-period. Percentage changes for percentages represent the net period-to-period change in basis points. Our consolidated gross profit increased \$133.9 million, or 65.5%, to \$338.4 million in 2018. Existing market gross profit decreased \$6.9 million, or 3.4%, over the same comparative period and gross profit within our acquired markets was \$143.0 million. Consolidated gross margins were 23.7% in 2018, a 0.2% increase from the prior year, and existing market gross margins decreased 0.8% over the comparative periods, to 22.7%.

The decrease in existing market gross margin was primarily driven by a product cost increase of approximately 2.5% as well as an unfavorable product mix related to lower residential sales volume and higher non-residential and complementary sales volume, partially offset by a price increase of approximately 2% across all products over the comparative period. Consolidated gross margin was slightly higher than existing market gross margin, primarily due to the positive impact of recent acquisitions.

Direct sales (products shipped by our vendors directly to our customers), which typically have substantially lower gross margins (and operating expense) compared to our warehouse sales, represented 13.9% and 17.8% of our net sales in 2018 and 2017, respectively. We believe variations in direct sales activity to be primarily caused by short-term factors such as local market conditions, weather conditions and storm activity. None of these variations were driven by material regional impacts from changes in the direct sales mix of our geographical regions.

Operating Expense

Operating expense for consolidated and existing markets was as follows (in thousands, except for percentages):

| | Three Months Ended | | Change ¹ | |
|--|--------------------|--|---------------------|--|
| | March 31, | | | |

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| | 2018 | 2017 | \$ | % |
|--------------------------------------|-----------|-----------|-----------|-------|
| Operating expense - consolidated | \$395,775 | \$207,533 | \$188,242 | 90.7% |
| Operating expense - existing markets | 234,651 | 205,544 | 29,107 | 14.2% |
| % of net sales - consolidated | 27.8 | % 23.8 | % N/A | 4.0 % |
| % of net sales - existing markets | 27.3 | % 23.8 | % N/A | 3.5 % |

¹ Percentage changes for dollar amounts represent the ratable increase or decrease from period-to-period. Percentage changes for percentages represent the net period-to-period change in basis points

Operating expense in our existing markets increased by \$29.1 million, or 14.2% in 2018, to \$234.7 million, as compared to \$205.5 million in 2017, while operating expense within our acquired markets was \$161.1 million in 2018. The following factors were the leading causes of the increase in operating expense in our existing markets:

- an increase in general and administrative expense of \$27.4 million due to related to one-time costs incurred as part of the Allied acquisition; and
 - an increase in payroll and employee benefit costs of \$3.3 million due to incremental costs of salaries and other overhead costs to serve storms in Florida and Texas;

34

partially offset by:

a decrease in amortization expense of \$4.0 million due to the scheduled declining run-rate of intangible asset amortization related to the RSG acquisition.

During 2018 and 2017, we recorded amortization expense related to the intangible assets recorded under purchase accounting within our existing markets of \$16.3 million and \$20.3 million, respectively. Our existing markets operating expense as a percentage of the related net sales in 2018 was 27.3%, compared to 23.8% in 2017.

Interest Expense, Financing Costs and Other

Interest expense, financing costs and other expense was \$39.6 million in 2018, as compared to \$12.3 million in 2017. The primary driver of this increase is the higher average outstanding debt balance over the comparative periods.

Income Taxes

There was an income tax benefit of \$30.3 million in 2018, as compared to a \$6.0 million benefit in 2017. The 2018 tax benefit was primarily due to the \$81.6 million increase in pre-tax net loss over the comparative periods. The effective tax rate before discrete items decreased to 29.4% in 2018, compared to 38.8% in 2017. This decrease was primarily driven by the reduction of the federal corporate income tax rate from 35% to a blended rate of 24.5%. We expect our fiscal year 2018 effective tax rate, excluding any discrete items, will be approximately 29.0-30.0%.

Net Income (Loss)/Net Income (Loss) Per Share

Net loss was \$66.7 million in 2018, as compared to a net loss of \$9.4 million in 2017. We declared \$6.0 million of dividends on preferred shares in 2018 and none in 2017, making net loss attributable to common shareholders of \$72.7 million in 2018, as compared to net loss attributable to common shareholders of \$9.4 million in 2017. We calculate net income (loss) per share by dividing net income (loss), less dividends on preferred shares, by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share is calculated by utilizing the most dilutive result after applying and comparing the two-class method and if-converted method (see Note 4 in the notes to the condensed consolidated financial statements for further detail).

The following table presents the all the components utilized to determine basic and diluted net income (loss) per share (in thousands, except share and per share amounts):

| | Three Months Ended March 31, | |
|---|---------------------------------|------------|
| | 2018 | 2017 |
| Net income (loss) | \$(66,655) | \$(9,356) |
| Less: Dividends on preferred shares, declared | 6,000 | - |
| Net income (loss) attributable to common shareholders | \$(72,655) | \$(9,356) |
| Weighted-average common shares outstanding, basic | 68,019,300 | 60,141,580 |
| Effect of common share equivalents | - | - |
| Weighted-average common shares outstanding, diluted (two-class method) | 68,019,300 | 60,141,580 |
| Effect of Preferred Stock conversion | 9,586,901 | - |
| Weighted-average common shares outstanding, diluted (if-converted method) | 77,606,201 | 60,141,580 |
| Net income (loss) per share - basic | \$(1.07) | \$(0.16) |
| Net income (loss) per share - diluted (two-class method) | (1.07) | (0.16) |

| | | | | |
|---|-------|---|-------|---|
| Net income (loss) per share - diluted (if-converted method) | (0.86 |) | (0.16 |) |
|---|-------|---|-------|---|

35

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Comparison of the Six Months Ended March 31, 2018 and 2017

The following tables set forth consolidated statement of operations data and such data as a percentage of total net sales for the periods presented (in thousands, except for percentages):

| | Six Months Ended | |
|---|------------------|-------------|
| | March 31, | |
| | 2018 | 2017 |
| Net sales | \$2,547,604 | \$1,872,908 |
| Cost of products sold | 1,939,474 | 1,417,364 |
| Gross profit | 608,130 | 455,544 |
| Operating expense | 616,432 | 411,643 |
| Income (loss) from operations | (8,302) | 43,901 |
| Interest expense, financing costs, and other | 62,138 | 25,842 |
| Income (loss) before provision for income taxes | (70,440) | 18,059 |
| Provision for (benefit from) income taxes | (71,381) | 6,985 |
| Net income (loss) | 941 | 11,074 |
| Dividends on preferred shares, declared | 6,000 | - |
| Net income (loss) attributable to common shareholders | (5,059) | 11,074 |

| | Six Months | |
|---|-----------------|---------|
| | Ended March 31, | |
| | 2018 | 2017 |
| Net sales | 100.0 % | 100.0 % |
| Cost of products sold | 76.1 % | 75.7 % |
| Gross profit | 23.9 % | 24.3 % |
| Operating expense | 24.2 % | 22.0 % |
| Income (loss) from operations | (0.3 %) | 2.3 % |
| Interest expense, financing costs, and other | 2.4 % | 1.4 % |
| Income (loss) before provision for income taxes | (2.7 %) | 0.9 % |
| Provision for (benefit from) income taxes | (2.7 %) | 0.3 % |
| Net income (loss) | 0.0 % | 0.6 % |
| Dividends on preferred shares, declared | 0.2 % | 0.0 % |
| Net income (loss) attributable to common shareholders | (0.2 %) | 0.6 % |

In managing our business, we consider all growth, including the opening of new branches, to be organic growth unless it results from an acquisition. When we refer to growth in existing markets or organic growth, we include growth from existing and newly opened branches but exclude 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. When we refer to regions, we are referring to our geographic regions.

As of March 31, 2018, we had a total of 588 branches in operation. Our existing market calculations include 358 branches and excluded 230 branches because they were acquired after the start of fiscal year 2017. When we refer to our net product costs, we are referring to our invoice cost less the impact of short-term buying programs (also referred to as “special buys” given the manner in which they are offered).

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The following table summarizes our results of operations by market type (existing and acquired) for the periods presented (in thousands, except for percentages):

| | Existing Markets | | Acquired Markets | | Consolidated | |
|---------------------------------------|----------------------------|-------------|------------------|----------|--------------|-------------|
| | Six Months Ended March 31, | | | | | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Net sales | \$1,943,585 | \$1,861,568 | \$604,019 | \$11,340 | \$2,547,604 | \$1,872,908 |
| Gross profit | \$454,557 | \$452,858 | \$153,573 | \$2,686 | \$608,130 | \$455,544 |
| Gross margin | 23.4 | % 24.3 | % 25.4 | % 23.7 | % 23.9 | % 24.3 |
| Operating expense ⁽¹⁾ | \$444,936 | \$408,987 | \$171,496 | \$2,656 | \$616,432 | \$411,643 |
| Operating expense as a % of net sales | 22.9 | % 22.0 | % 28.4 | % 23.4 | % 24.2 | % 22.0 |
| Operating income (loss) | \$9,621 | \$43,870 | \$(17,923) | \$31 | \$(8,302) | \$43,901 |
| Operating margin | 0.5 | % 2.4 | % (3.0) | % 0.3 | % (0.3) | % 2.3 |

¹ During 2018 and 2017, we recorded amortization expense related to intangible assets recorded under purchase accounting of \$55.3 million (\$22.4 million from acquired markets) and \$40.4 million (immaterial amount from acquired markets), respectively. In addition, total operating expense for 2018 and 2017 included non-recurring charges of \$33.9 million (immaterial amount from acquired markets) and \$2.7 million (none from acquired markets), respectively, for the recognition of costs related to acquisitions.

Net Sales

Consolidated net sales increased \$674.7 million, or 36.0%, to \$2.55 billion in 2018, up from \$1.87 billion in 2017. Existing market sales increased \$82.0 million, or 4.4%, over the same comparative period. We believe the increase in our 2018 existing market sales was influenced primarily by the following factors:

- higher pricing and increased demand across all product categories;
- high demand in Florida and Texas following hurricanes Irma and Harvey; and
- strong growth within complementary products, particularly in our Southwest and West regions;

partially offset by:

- higher prior year net sales in certain regions related to multiple hail storm events and hurricane Matthew.

Net sales within our acquired markets were \$604.0 million in 2018, an increase from 2017 due to the impact from recent acquisitions.

We estimate the impact of inflation or deflation on our sales and gross profit by looking at changes in our average selling prices and gross margins (discussed below). Average overall selling prices in existing markets were up over 1% in 2018 compared to 2017, driven primarily price increases across all product categories and highlighted by an increase in complementary product pricing of approximately 5%.

Existing markets net sales by geographical region increased (decreased) from 2017 to 2018 as follows: Northeast 2.2%; Mid-Atlantic (4.3%); Southeast 18.9%; Southwest (2.1%); Midwest (0.9%); West (19.7%); and Canada 5.2%. These variations were primarily caused by short-term factors such as local market conditions, weather conditions and storm activity.

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Product group sales for our existing markets were as follows (in thousands, except for percentages):

| | Six Months Ended March 31, | | | | Change | |
|----------------------------------|----------------------------|---------|-------------|---------|----------|--------|
| | 2018 | | 2017 | | \$ | % |
| | Net Sales | % | Net Sales | % | | |
| Residential roofing products | \$1,041,864 | 53.6 % | \$1,008,718 | 54.2 % | \$33,146 | 3.3 % |
| Non-residential roofing products | 571,984 | 29.4 % | 554,367 | 29.8 % | 17,617 | 3.2 % |
| Complementary building products | 329,737 | 17.0 % | 298,483 | 16.0 % | 31,254 | 10.5 % |
| Total existing market sales | \$1,943,585 | 100.0 % | \$1,861,568 | 100.0 % | \$82,017 | 4.4 % |

For 2018, our acquired markets recognized sales of \$126.5 million, \$88.7 million and \$388.8 million in residential roofing products, non-residential roofing products and complementary building products, respectively. The combination of our 2018 existing

market sales of \$1.94 billion plus the sales from acquired markets of \$604.0 million equals our total 2018 sales of \$2.55 billion. We believe the existing market information is useful to investors because it helps explain organic growth or decline.

Gross Profit

Gross profit and gross margin for our consolidated and existing markets were as follows (in thousands, except for percentages):

| | Six Months Ended | | Change ¹ | |
|---------------------------------|-------------------|-----------|---------------------|--------|
| | March 31, 2018 | 2017 | \$ | % |
| Gross profit - consolidated | \$608,130 | \$455,544 | \$152,586 | 33.5% |
| Gross profit - existing markets | 454,557 | 452,858 | 1,699 | 0.4% |
| Gross margin - consolidated | 23.9% | 24.3% | N/A | (0.4%) |
| Gross margin - existing markets | 23.4% | 24.3% | N/A | (0.9%) |

¹ Percentage changes for dollar amounts represent the ratable increase or decrease from period-to-period. Percentage changes for percentages represent the net period-to-period change in basis points.

Our consolidated gross profit increased \$152.6 million, or 33.5%, to \$608.1 million in 2018. Existing market gross profit increased \$1.7 million, or 0.4%, over the same comparative period and gross profit within our acquired markets was \$153.6 million. Consolidated gross margins were 23.9% in 2018, a 0.4% decrease from the prior year, and existing market gross margins decreased 0.9% over the comparative periods, to 23.4%.

The decrease in existing market gross margin was primarily driven by a product cost increase of over 2%, partially offset by a price increase of over 1% across all products over the comparative period. Consolidated gross margin was slightly higher than existing market gross margin, primarily due to the positive impact of recent acquisitions.

Direct sales (products shipped by our vendors directly to our customers), which typically have substantially lower gross margins (and operating expense) compared to our warehouse sales, represented 13.7% and 15.8% of our net sales in 2018 and 2017, respectively. We believe variations in direct sales activity to be primarily caused by short-term factors such as local market conditions, weather conditions and storm activity. None of these variations were driven by material regional impacts from changes in the direct sales mix of our geographical regions.

Operating Expense

Operating expense for consolidated and existing markets was as follows (in thousands, except for percentages):

| | Six Months Ended | | Change ¹ | |
|--------------------------------------|-------------------|-----------|---------------------|-------|
| | March 31, 2018 | 2017 | \$ | % |
| Operating expense - consolidated | \$616,432 | \$411,643 | \$204,789 | 49.7% |
| Operating expense - existing markets | 444,936 | 408,987 | 35,949 | 8.8% |
| % of net sales - consolidated | 24.2% | 22.0% | N/A | 2.2% |
| % of net sales - existing markets | 22.9% | 22.0% | N/A | 0.9% |

¹ Percentage changes for dollar amounts represent the ratable increase or decrease from period-to-period. Percentage changes for percentages represent the net period-to-period change in basis points.

Operating expense in our existing markets increased by \$35.9 million, or 8.8% in 2018, to \$444.9 million, as compared to \$409.0 million in 2017, while operating expense within our acquired markets was \$171.5 million in 2018. The following factors were the leading causes of the increase in operating expense in our existing markets:

- an increase in general and administrative expense of \$28.0 million due to related to one-time costs incurred as part of the Allied acquisition

- an increase in payroll and employee benefit costs of \$13.5 million due to higher insurance costs, and higher salaries and wages from annual merit increases as well as additional headcount;

partially offset by:

- a decrease in amortization expense of \$7.5 million due to the scheduled declining run-rate of intangible asset amortization related to the RSG acquisition.

38

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During 2018 and 2017, we recorded amortization expense related to the intangible assets recorded under purchase accounting within our existing markets of \$32.9 million and \$40.4 million, respectively. Our existing markets operating expense as a percentage of the related net sales in 2018 was 22.9%, compared to 22.0% in 2017.

Interest Expense, Financing Costs and Other

Interest expense, financing costs and other expense was \$62.1 million in 2018, as compared to \$25.8 million in 2017. The primary driver of this increase is the higher average outstanding debt balance over the comparative periods.

Income Taxes

There was an income tax benefit of \$71.4 million in 2018, as compared to a \$7.0 million income tax provision in 2017. The 2018 tax benefit was primarily due to the net \$48.0 million beneficial impact recognized in 2018 as a result of the enactment of the Tax Cuts and Jobs Act of 2017 (see Note 12), as well as a \$22.1 million tax benefit, excluding any discrete items, stemming from an increase of \$88.5 million in pre-tax net loss over the comparative periods. The effective tax rate before discrete items decreased to 29.4% in 2018, compared to 38.8% in 2017. This decrease was primarily driven by the reduction of the federal corporate income tax rate from 35% to a blended rate of 24.5%. We expect our fiscal year 2018 effective tax rate, excluding any discrete items, will be approximately 29.0-30.0%.

Net Income (Loss)/Net Income (Loss) Per Share

Net income was \$0.9 million in 2018, as compared to a net income of \$11.1 million in 2017. We declared \$6.0 million of dividends on preferred shares in 2018 and none in 2017, making net loss attributable to common shareholders of \$5.1 million in 2018, as compared to net income attributable to shareholders of \$9.4 million in 2017. We calculate net income (loss) per share by dividing net income (loss), less dividends on preferred shares, by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share is calculated by utilizing the most dilutive result after applying and comparing the two-class method and if-converted method (see Note 4 in the notes to the condensed consolidated financial statements for further detail).

The following table presents the all the components utilized to determine basic and diluted net income (loss) per share (in thousands, except share and per share amounts):

| | Six Months Ended March 31, | |
|---|-------------------------------|------------|
| | 2018 | 2017 |
| Net income (loss) | \$941 | \$11,074 |
| Less: Dividends on preferred shares, declared | 6,000 | - |
| Net income (loss) attributable to common shareholders | \$(5,059 |) \$11,074 |
| Weighted-average common shares outstanding, basic | 67,922,276 | 60,041,332 |
| Effect of common share equivalents | - | 1,028,606 |
| Weighted-average common shares outstanding, diluted (two-class method) | 67,922,276 | 61,069,938 |
| Effect of Preferred Stock conversion | 4,740,776 | - |
| Weighted-average common shares outstanding, diluted (if-converted method) | 72,663,052 | 61,069,938 |
| Net income (loss) per share - basic | \$(0.07 |) \$0.18 |
| Net income (loss) per share - diluted (two-class method) | (0.07 |) 0.18 |
| Net income (loss) per share - diluted (if-converted method) | 0.01 | 0.18 |

Non-GAAP Financial Measures

To provide investors with additional information regarding our financial results, we prepare certain financial measures that are not calculated in accordance with generally accepted accounting principles in the United States (“GAAP”), specifically:

- Adjusted Net Income (Loss)/Adjusted EPS

- Adjusted EBITDA

We define Adjusted Net Income (Loss) as net income that excludes non-recurring acquisition costs, the amortization of intangibles, business restructuring costs, and the non-recurring effects of tax reform. Adjusted net income per share (“Adjusted EPS”) is calculated by dividing the Adjusted Net Income (Loss) for the period by the weighted-average diluted shares outstanding for the period.

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We define Adjusted EBITDA as net income plus interest expense (net of interest income), income taxes, depreciation and amortization, stock-based compensation, non-recurring acquisition costs, and business restructuring costs. EBITDA is a measure commonly used in the distribution industry.

We use these supplemental measures to evaluate performance period over period and to analyze the underlying trends in our business and to establish operational goals and forecasts that are used in allocating resources. We expect to compute our non-GAAP financial measures consistently using the same methods from quarter to quarter and year to year.

We believe these measures are useful because they allow investors to better understand year-over-year changes in underlying operating performance. We believe that these non-GAAP measures provide investors and analysts with a measure of operating results unaffected by differences in capital structures and capital investment cycles among otherwise comparable companies. Further, we believe these measures are useful to investors because they improve comparability of results of operations since they eliminate the impact of purchase accounting adjustments that can render operating results non-comparable between periods.

Although we believe that these non-GAAP financial measures are useful in evaluating our business, this information should be considered as supplemental in nature and is not meant as a substitute for the related financial information prepared in accordance with GAAP. You should not consider any of these measures as a substitute alongside other financial performance measures presented in accordance with GAAP.

The following table presents a reconciliation of net income, the most directly comparable financial measure as measured in accordance with GAAP, to Adjusted Net Income (Loss)/Adjusted EPS for each of the periods indicated (in thousands, except per share amounts):

Adjusted Net Income (Loss)/Adjusted EPS

| | Three Months Ended March 31, 2018 | | 2017 | | Six Months Ended March 31, 2018 | | 2017 | |
|--|--------------------------------------|-----------|-----------|-----------|------------------------------------|-----------|----------|-----------|
| | Amount | Per Share | Amount | Per Share | Amount | Per Share | Amount | Per Share |
| Net income (loss) | \$(66,655) | \$(0.98) | \$(9,356) | \$(0.16) | \$941 | \$0.01 | \$11,074 | \$0.18 |
| Less: Dividends on preferred shares, declared | 6,000 | (0.09) | - | - | 6,000 | (0.08) | - | - |
| Net income (loss) attributable to common shareholders | \$(72,655) | \$(1.07) | \$(9,356) | \$(0.16) | \$(5,059) | \$(0.07) | \$11,074 | \$0.18 |
| Adjustments: | | | | | | | | |
| Acquisition costs ¹ | 50,604 | 0.74 | 14,404 | 0.24 | 76,237 | 1.12 | 28,373 | 0.46 |
| Effects of tax reform ² | (1,491) | (0.02) | - | - | (47,983) | (0.71) | - | - |
| Adjusted Net Income (Loss) | \$(23,542) | \$(0.35) | \$5,048 | \$0.08 | \$23,195 | \$0.34 | \$39,447 | \$0.64 |

¹ Acquisition costs for the three months ended March 31, 2018 include \$34.6 million of non-recurring charges related to acquisitions and \$37.1 million of amortization expense related to intangibles, both net of \$21.1 million in tax in total. Acquisition costs for the three months ended March 31, 2017 include \$3.1 million of non-recurring charges related to acquisitions and \$20.3 million of amortization expense related to intangibles, both net of \$9.0 million in tax in total. Acquisition costs for the six months ended March 31, 2018 include \$52.5 million of non-recurring charges related to acquisitions and \$55.2 million of amortization expense related to intangibles, both

net of \$31.5 million in tax in total. Acquisition costs for the six months ended March 31, 2017 include \$5.9 million of non-recurring charges related to acquisitions and \$40.4 million of amortization expense related to intangibles, both net of \$17.8 million in tax in total.

² Impact of the Tax Cuts and Jobs Act of 2017 – see Note 12 for further discussion.

40

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The following table presents a reconciliation of net income, the most directly comparable financial measure as measured in accordance with GAAP, to Adjusted EBITDA for each of the periods indicated (in thousands, except percentages):

Adjusted EBITDA

| | Three Months Ended | | Six Months Ended | | | | | |
|-------------------------------------|--------------------|------------|------------------|-----------|-----|---|-----|---|
| | March 31, | | March 31, | | | | | |
| | 2018 | 2017 | 2018 | 2017 | | | | |
| Net income (loss) | \$(66,655) | \$(9,356) | \$941 | \$11,074 | | | | |
| Acquisition costs ¹ | 28,301 | 1,584 | 33,870 | 2,744 | | | | |
| Interest expense, net | 41,763 | 13,245 | 65,279 | 26,484 | | | | |
| Income taxes | (30,313) | (5,968) | (71,381) | 6,985 | | | | |
| Depreciation and amortization | 54,188 | 28,530 | 81,092 | 56,955 | | | | |
| Stock-based compensation | 4,376 | 3,758 | 7,835 | 7,574 | | | | |
| Adjusted EBITDA | \$31,660 | \$31,793 | \$117,636 | \$111,816 | | | | |
| Adjusted EBITDA as a % of net sales | 2.2 | % | 3.7 | % | 4.6 | % | 6.0 | % |

¹ Acquisition costs reflect non-recurring charges related to acquisitions (excluding the impact of tax) that are not embedded in other balances of the table. Certain portions of the total acquisition costs incurred are included in interest expense, income taxes, depreciation and amortization, and stock-based compensation.

Seasonality and Quarterly Fluctuations

In general, sales and net income are highest during our first, third and fourth fiscal quarters, which represent the peak months of construction and re-roofing, especially in our branches in the northern and mid-western U.S. and in Canada. We have historically incurred low net income levels or net losses during the second quarter when our sales are substantially lower.

We generally experience an increase in inventory, accounts receivable and accounts payable during the third and fourth quarters of the year as a result of the seasonality of our business. Our peak cash usage generally occurs during the third quarter, primarily because accounts payable terms offered by our suppliers typically have due dates in April, May and June, while our peak accounts receivable collections typically occur from June through November.

We generally experience a slowing of our accounts receivable collections during our second quarter, mainly due to the inability of some of our customers to conduct their businesses effectively in inclement weather in certain divisions. We continue to attempt to collect those receivables, which require payment under our standard terms. We do not provide material concessions to our customers during this quarter of the year.

We generally experience our peak working capital needs during the third quarter after we build our inventories following the winter season but before we begin collecting on most of our spring receivables.

Certain Quarterly Financial Data

The following table sets forth certain unaudited quarterly data for fiscal year 2018 (ending March 31, 2018) and fiscal year 2017 which, in the opinion of management, reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of this data. Results of any one or more quarters are not necessarily indicative of results for an entire fiscal year or of continuing trends (in thousands, except per share amounts):

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| | 2018 | | 2017 | | | |
|---|-------------|-------------|-------------|------------|-------------|-------------|
| | Qtr 1 | Qtr 2 | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 |
| Net sales | \$1,121,979 | \$1,425,625 | \$1,002,184 | \$870,724 | \$1,213,894 | \$1,289,868 |
| Gross profit | 269,753 | 338,377 | 251,067 | 204,477 | 297,754 | 322,641 |
| Income (loss) from operations | 49,096 | (57,398) | 46,957 | (3,056) | 84,871 | 87,324 |
| Net income (loss) | 67,596 | (66,655) | 20,430 | (9,356) | 44,659 | 45,131 |
| Dividends on preferred shares, declared | - | 6,000 | - | - | - | - |
| Net income (loss) attributable to common shareholders | \$67,596 | \$(72,655) | \$20,430 | \$(9,356) | \$44,659 | \$45,131 |
| Net income (loss) per share - basic | \$1.00 | \$(1.07) | \$0.34 | \$(0.16) | \$0.74 | \$0.74 |
| Net income (loss) per share - diluted | \$0.98 | \$(1.07) | \$0.33 | \$(0.16) | \$0.73 | \$0.73 |

41

Liquidity

Liquidity is defined as the current amount of readily available cash and the ability to generate adequate amounts of cash to meet the current needs for cash. We assess our liquidity in terms of our cash and cash equivalents on hand and the ability to generate cash to fund our operating activities, taking into consideration available borrowings and the seasonal nature of our business.

Our principal sources of liquidity as of March 31, 2018 were our cash and cash equivalents of \$16.0 million and our available borrowings of \$764.4 million under our asset based lending revolving credit facility.

Significant factors which could affect future liquidity include the following:

- the adequacy of available bank lines of credit;
- the ability to attract long-term capital with satisfactory terms;
- cash flows generated from operating activities;
- acquisitions; and
- capital expenditures.

Our primary capital needs are for working capital obligations and other general corporate purposes, including acquisitions and capital expenditures. Our primary sources of working capital are cash from operations and cash equivalents supplemented by bank borrowings. In the past, we have financed larger acquisitions initially through increased bank borrowings and the issuance of common stock. We then repay any such borrowings with cash flows from operations. We have funded most of our capital expenditures with cash on hand or through increased bank borrowings, including equipment financing, and then have reduced those obligations with cash flows from operations.

We believe we have adequate current liquidity and availability of capital to fund our present operations, meet our commitments on our existing debt and fund anticipated growth, including expansion in existing and targeted market areas. We seek potential acquisitions from time to time and hold discussions with certain acquisition candidates. If suitable acquisition opportunities or working capital needs arise that require additional financing, we believe that our financial position and earnings history provide a sufficient base for obtaining additional financing resources at reasonable rates and terms. We may also choose to issue additional shares of common stock or preferred stock in order to raise funds.

The following table summarizes our cash flows for the periods indicated (in thousands):

| | Six Months Ended | |
|--|------------------|------------|
| | March 31, | |
| | 2018 | 2017 |
| Net cash provided by (used in) operating activities | \$39,966 | \$150,530 |
| Net cash provided by (used in) investing activities | (2,750,981) | (81,305) |
| Net cash provided by (used in) financing activities | 2,587,965 | (90,718) |
| Effect of exchange rate changes on cash and cash equivalents | 800 | 119 |
| Net increase (decrease) in cash and cash equivalents | \$(122,250) | \$(21,374) |

Operating Activities

Net cash provided by operating activities was \$40.0 million in 2018, compared to \$150.5 million in 2017. Cash from operations decreased \$110.6 million, mainly due to a decrease in net income after adjustments for non-cash items of \$32.0 million and an incremental cash outflow of \$78.6 million stemming from changes to our net working capital.

Investing Activities

Net cash used in investing activities was \$2.75 billion in 2018, compared to \$81.3 million in 2017. The \$2.67 billion of additional investing cash flow spend was primarily due to the acquisition of Allied Building Products Corp. that closed on January 2, 2018.

Financing Activities

Net cash provided by financing activities was \$2.59 billion in 2018, compared to \$90.7 million used in financing activities in 2017. The financing cash flow increase of \$2.68 billion was primarily due to the net increase in outstanding debt resulting from the new financing arrangements that we entered into in connection with the Allied Acquisition (see Note 8) as well as the \$400.0 million in gross proceeds received from the issuance of convertible preferred stock (see Note 3).

Capital Resources

As of March 31, 2018, we had access to the following financing arrangements:

- an asset-based revolving line of credit in the United States;
- an asset-based revolving line of credit in Canada;
- a term loan; and
- two separate senior notes instruments

Financing - Allied Acquisition

In connection with the Allied Acquisition, we entered into various financing arrangements totaling \$3.57 billion, including an asset-based revolving line of credit of \$1.30 billion (“2023 ABL”), \$525.0 million of which was drawn at closing, and a \$970.0 million term loan (“2025 Term Loan”). We also raised an additional \$1.30 billion through the issuance of senior notes (the “2025 Senior Notes”).

The proceeds from these financing arrangements were used to finance the Allied Acquisition, to refinance or otherwise extinguish all third-party indebtedness, to pay fees and expenses associated with the acquisition, and to provide working capital and funds for other general corporate purposes. We capitalized new debt issuance costs totaling approximately \$67.7 million related to the 2023 ABL, the 2025 Term Loan and the 2025 Senior Notes.

Since the financing arrangements entered into in connection with the Allied Acquisition had certain lenders who also participated in our previous financing arrangements, portions of the transactions were accounted for as either a debt modification or a debt extinguishment. In accordance with the accounting for debt modification, we expensed \$2.0 million of debt issuance costs related to the Allied financing arrangements and recognized a loss on debt extinguishment of \$1.7 million. The remainder of the debt issuance costs will be amortized over the term of the Allied financing arrangements.

2023 ABL

On January 2, 2018, we entered into a \$1.30 billion asset-based revolving line of credit with Wells Fargo Bank, N.A. and a syndicate of other lenders. The 2023 ABL consists of revolving loans in both the United States (“2023 U.S. Revolver”) in the amount of \$1.20 billion and Canada (“2023 Canada Revolver”) in the amount of \$100.0 million. The 2023 ABL has a maturity date of January 2, 2023. The 2023 ABL has various borrowing tranches with an interest rate based on a LIBOR rate (with a floor) plus a fixed spread. The current unused commitment fees on the 2023 ABL are 0.25% per annum.

There is one financial covenant under the 2023 ABL, which is a Consolidated Fixed Charge Ratio. The Consolidated Fixed Charge Ratio is calculated by dividing consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) by Consolidated Fixed Charges (both as defined in the agreement). Per the covenant, our Consolidated Fixed Charge Ratio has to be a minimum of 1.00 at the end of each fiscal quarter, calculated on a trailing four quarter basis.

The 2023 ABL is secured by a first priority lien over substantially all of our and each guarantor’s accounts, chattel paper, deposit accounts, books, records and inventory (as well as intangibles related thereto), subject to certain customary exceptions (the “ABL Priority Collateral”), and a second priority lien over substantially all of our and each guarantor’s other assets, including all of the equity interests of any subsidiary held by us or any guarantor, subject to certain customary exceptions (the “Term Priority Collateral”). The 2023 ABL is guaranteed jointly, severally, fully and unconditionally by our active United States subsidiaries.

As of March 31, 2018, the total balance outstanding on the 2023 ABL, net of \$11.8 million of unamortized debt issuance costs, was \$424.5 million. We also have outstanding standby letters of credit related to the 2023 U.S.

Revolver in the amount of \$14.8 million as of March 31, 2018.

2025 Term Loan

On January 2, 2018, we entered into a \$970.0 million Term Loan with Citibank N.A., and a syndicate of other lenders. The 2025 Term Loan requires quarterly principal payments in the amount of \$2.4 million, with the remaining outstanding principal to be paid on its maturity date of January 2, 2025. The interest rate is based on a LIBOR rate (with a floor) plus a fixed spread. We have the option of selecting a LIBOR period that determines the rate at which interest can accrue on the Term Loan as well as the period in which interest payments are made.

The 2025 Term Loan is secured by a first priority lien on the Term Priority Collateral and a second priority lien on the ABL Priority Collateral. Certain excluded assets will not be included in the Term Priority Collateral and the Revolving Priority Collateral. The Term Loan is guaranteed jointly, severally, fully and unconditionally by our active United States subsidiaries.

As of March 31, 2018, the outstanding balance on the Term Loan, net of \$38.1 million of unamortized debt issuance costs, was \$931.9 million.

2025 Senior Notes

On October 25, 2017, Beacon Escrow Corporation, our wholly-owned subsidiary (the “Escrow Issuer”), completed a private offering of \$1.30 billion aggregate principal amount of 4.875% Senior Notes due 2025 at an issue price of 100%. The 2025 Senior Notes bear interest at a rate of 4.875% per annum, payable semi-annually in arrears, beginning May 1, 2018. We anticipate repaying the 2025 Senior Notes at the maturity date of November 1, 2025. Per the terms of the Escrow Agreement, the net proceeds from the 2025 Senior Notes remained in escrow until they were used to fund a portion of the purchase price of the Allied Acquisition payable at closing on January 2, 2018.

Upon closing of the Allied Acquisition on January 2, 2018, (i) the Escrow Issuer merged with and into us, and we assumed all obligations under the 2025 Senior Notes; and (ii) all our existing domestic subsidiaries (including the entities acquired in the Allied Acquisition) became guarantors of the 2025 Senior Notes.

As of March 31, 2018, the outstanding balance on the 2025 Senior Notes, net of \$21.3 million of debt issuance costs, was \$1.28 billion.

Financing - RSG Acquisition

In connection with the RSG Acquisition, we entered into various financing arrangements totaling \$1.45 billion, including an asset-based revolving line of credit (“2020 ABL”) of \$700.0 million (\$350.0 million of which was drawn at closing) and a \$450.0 million term loan (“2022 Term Loan”). We also raised an additional \$300.0 million through the issuance of senior notes (the “2023 Senior Notes”).

The proceeds from these financing arrangements were used to provide working capital and funds for other general corporate purposes, to refinance or otherwise extinguish all third-party indebtedness, to finance the acquisition, and to pay fees and expenses associated with the RSG acquisition. We incurred debt issuance costs totaling approximately \$31.3 million related to the 2020 ABL, 2022 Term Loan, and 2023 Senior Notes.

2020 ABL

On October 1, 2015, we entered into a \$700.0 million asset-based revolving line of credit with Wells Fargo Bank, N.A. and a syndicate of other lenders. The 2020 ABL had an original maturity date of October 1, 2022 and consisted of revolving loans in both the United States (“2020 U.S. Revolver”) in the amount of \$670.0 million and Canada (“Canada Revolver”) in the amount of \$30.0 million. The 2020 ABL had various borrowing tranches with an interest rate based on a LIBOR rate (with a floor) plus a fixed spread. The full balance of the 2020 ABL was paid on January 2, 2018 in conjunction with the Allied Acquisition.

2022 Term Loan

On October 1, 2015, we entered into a \$450.0 million Term Loan with Citibank N.A., and a syndicate of other lenders. The 2022 Term Loan required quarterly principal payments in the amount of \$1.1 million, with the remaining outstanding principal to be paid on its original maturity date of October 1, 2022. The interest rate was based on a LIBOR rate (with a floor) plus a fixed spread. We had the option of selecting a LIBOR period that determines the rate

at which interest would accrue, as well as the period in which interest payments are made. The full balance of the 2022 Term Loan was paid on January 2, 2018 in conjunction with the Allied Acquisition, including the write-off of \$0.7 million in debt issuance costs.

2023 Senior Notes

On October 1, 2015, we raised \$300.0 million by issuing senior notes due 2023. The 2023 Senior Notes have a coupon rate of 6.38% per annum and are payable semi-annually in arrears, beginning April 1, 2016. There are early payment provisions in the indenture in which we would be subject to “make whole” provisions. We anticipate repaying the notes at the maturity date of October 1, 2023.

The 2023 Senior Notes are guaranteed jointly, severally, fully and unconditionally by our active United States subsidiaries.

As of March 31, 2018, the outstanding balance on the 2023 Senior Notes, net of \$7.0 million of unamortized debt issuance costs, was \$293.0 million.

Equipment Financing Facilities and Other

As of March 31, 2018 , we had \$13.3 million outstanding under equipment financing facilities, with fixed interest rates ranging from 2.33% to 3.25% and payments due through September 2021.

As of March 31, 2018 , we had \$14.9 million of capital lease obligations outstanding. These leases have interest rates ranging from 2.72% to 10.39% with payments due through November 2021.

Cautionary Statement for Purposes of the “Safe Harbor” Provisions of the Private Securities Litigation Reform Act of 1995

Our disclosure and analysis in this report contains forward-looking information that involves risks and uncertainties. Our forward-looking statements express our current expectations or forecasts of possible future results or events, including projections of future performance, statements of management’s plans and objectives, future contracts, and forecasts of trends and other matters. You can identify these statements by the fact that they do not relate strictly to historic or current facts and often use words such as “anticipate,” “estimate,” “expect,” “believe,” “will likely result,” “outlook,” “project” and other words and expressions of similar meaning. No assurance can be given that the results in any forward-looking statements will be achieved and actual results could be affected by one or more factors, which could cause them to differ materially. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act.

Certain factors that may affect our business and could cause actual results to differ materially from those expressed in any forward-looking statements include those set forth under the heading “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our market risk disclosures set forth in Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” of its 2017 Annual Report on Form 10-K have not changed materially during the six month period ended March 31, 2018.

Item 4. Controls and Procedures

As of March 31, 2018, management, including the CEO and CFO, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the “Act”). Based on that evaluation, management, including the CEO and CFO, concluded that as of March 31, 2018, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and to ensure that information required to be disclosed by us in the reports that we file or submit under the Act is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. We maintain a system of internal control over financial reporting that is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States.

On January 2, 2018, we completed our acquisition of Allied Building Products Corp. and an affiliated entity (“Allied”). In conducting our assessment of the effectiveness of our internal controls over financial reporting during the quarter, management has elected to exclude Allied from our controls assessment for the remainder of fiscal year 2018, as permitted under existing SEC staff guidance. We are currently in the process of integrating and assessing Allied’s historical internal controls over financial reporting with those of the rest of the Company. The integration may lead to changes in future periods, but we do not expect these changes to materially affect our internal controls over financial reporting.

Including the Allied acquisition, there has been no change to our internal control over financial reporting during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 6. Exhibits

| Exhibit Number | Description | Incorporated by Reference | | | |
|-------------------|--|---------------------------|-----------|---------|------------------|
| | | Form | File No. | Exhibit | Filing Date |
| 3.1 | <u>Certificate of Designations, Preferences and Rights of Series A Cumulative Convertible Participating Preferred Stock of Beacon Roofing Supply, Inc.</u> | Form 8-K | 000-50924 | 3.1 | January 5, 2018 |
| 4.1 | <u>Indenture, dated as of October 25, 2017, between Beacon Escrow Corporation and U.S. Bank National Association, as trustee.</u> | Form 8-K | 000-50924 | 4.1 | October 26, 2017 |
| 4.2 | <u>Form of 4.875% Senior Notes due 2025 (included as Exhibit A to the Indenture incorporated by reference as Exhibit 4.1).</u> | Form 8-K | 000-50924 | 4.2 | October 26, 2017 |
| 4.3 | <u>Supplemental Indenture, dated as of January 2, 2018, to the</u> | Form 8-K | 000-50924 | 4.2 | January 5, 2018 |

Indenture dated as of October 25, 2017, by and among Beacon Roofing Supply, Inc., certain direct and indirect subsidiaries of Beacon, as subsidiary guarantors, and U.S. Bank National Association, as trustee.

Second Supplemental Indenture, dated as of January 2, 2018, to the Indenture dated as of October 1, 2015, by and among Beacon Roofing Supply, Inc., certain direct and indirect subsidiaries of Beacon, as additional subsidiary guarantors, and U.S. Bank National Association, as trustee.

4.4

Form 8-K 000-50924

4.3

January 5, 2018

10.1

Term Loan Credit Agreement, dated as of January 2, 2018, by and among Beacon Roofing

Form 8-K 000-50924

10.1

January 5, 2018

Supply, Inc.,
Citibank N.A.,
as
administrative
agent, and the
lenders and
financial
institutions
party thereto.

Amended and
Restated
Credit
Agreement,
dated as of
January 2,
2018, by and
among Beacon
Roofing
Supply, Inc.,

| | | | | | |
|------|---|---------------------|------------------|-------------|----------------------------|
| 10.2 | <p><u>Wells Fargo</u> <u>Bank, National</u> <u>Association, as</u> <u>administrative</u> <u>agent, and the</u> <u>US borrowers,</u> <u>Canadian</u> <u>borrower,</u> <u>lenders and</u> <u>financial</u> <u>institutions</u> <u>party thereto.</u></p> | <p>Form 8-K</p> | <p>000-50924</p> | <p>10.2</p> | <p>January 5, 2018</p> |
|------|---|---------------------|------------------|-------------|----------------------------|

Registration
Rights
Agreement,
dated as of
January 2,
2018, by and

| | | | | | |
|------|---|---------------------|------------------|-------------|----------------------------|
| 10.3 | <p><u>between</u> <u>Beacon</u> <u>Roofing</u> <u>Supply, Inc.</u> <u>and CD&R</u> <u>Boulder</u> <u>Holdings, L.P.</u></p> | <p>Form 8-K</p> | <p>000-50924</p> | <p>10.4</p> | <p>January 5, 2018</p> |
|------|---|---------------------|------------------|-------------|----------------------------|

31.1* Certification
of Chief
Executive
Officer

Pursuant to
Rule 13a-14(a)

Certification
of Chief
31.2* Financial
Officer
Pursuant to
Rule 13a-14(a)

Certification
32.1* pursuant to 18
U.S.C. Section
1350

101* 101.INS
XBRL
Instance

101.SCH
XBRL
Taxonomy
Extension
Schema

101.CAL
XBRL
Taxonomy
Extension
Calculation
101.LAB
XBRL
Taxonomy
Extension
Labels
101.CAL
XBRL
Taxonomy
Extension
Calculation
101.PRE
XBRL
Taxonomy
Extension
Presentation
101.LAB
XBRL
Taxonomy
Extension

Labels
101.DEF
XBRL
Taxonomy
Extension
Definition

+Management contract or compensatory plan/arrangement
*Filed herewith

Pursuant to Rule 405 of Regulation S-T, the following interactive data files formatted in Extensible Business Reporting Language (XBRL) are attached as Exhibit 101 to this Quarterly Report on Form 10-Q: (i) the Consolidated Balance Sheets as of March 31, 2018; September 30, 2017; and March 31, 2017, (ii) the Consolidated Statements of Operations for the three and six months ended March 31, 2018 and March 31, 2017, (iii) the Consolidated Statements of Comprehensive Income for the three and six months ended March 31, 2018 and March 31, 2017, (iv) the Consolidated Statements of Cash Flows for the six months ended March 31, 2018 and March 31, 2017, and (v) the Notes to Condensed Consolidated Financial Statements.

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.

BEACON ROOFING SUPPLY, INC.

Date: May 9, 2018 BY: /s/ JOSEPH M. NOWICKI

Joseph M. Nowicki

Executive Vice President & Chief Financial Officer