

SiteOne Landscape Supply, Inc.
Form 10-Q
November 07, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended October 2, 2016

or

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

For the Transition Period From _____ to _____

Commission file number: 001-37760

SiteOne Landscape Supply, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

Edgar Filing: SiteOne Landscape Supply, Inc. - Form 10-Q

company” in Rule 12b-2 of the Exchange Act (Check One):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Table of Contents

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 November 4, 2016, 39,542,239 shares of the registrant's common stock, \$0.01 par value, were outstanding.

Table of Contents

TABLE OF CONTENTS

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets 2

Condensed Consolidated Statements of Operations 3

Condensed Consolidated Statements of Comprehensive Income 4

Condensed Consolidated Statements of Cash Flows 5

Notes to Condensed Consolidated Financial Statements 7

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 9

Item 3. Quantitative and Qualitative Disclosures About Market Risk 29

Item 4. Controls and Procedures 30

Part II. OTHER INFORMATION

Item 1. Legal Proceedings 31

Item 1A. Risk Factors 31

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 31

Item 6. Exhibits 32

Signatures 33

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SiteOne Landscape Supply, Inc.

Condensed Consolidated Balance Sheets (Unaudited)

(In millions, except share and per share data)

| | October 2, 2016 | January 3, 2016 |
|--|--------------------|--------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 25.9 | \$ 20.1 |
| Accounts receivable, net of allowance for doubtful accounts of \$4.4 and \$3.6, respectively | 224.9 | 136.8 |
| Inventory, net | 310.4 | 265.9 |
| Income tax receivable | 3.6 | 7.3 |
| Prepaid expenses and other current assets | 26.1 | 12.1 |
| Total current assets | 590.9 | 442.2 |
| Property and equipment, net (Note 3) | 67.9 | 66.2 |
| Goodwill (Note 4) | 66.1 | 48.0 |
| Intangible assets, net (Note 4) | 106.0 | 104.3 |
| Other assets | 9.1 | 8.0 |
| Total assets | \$ 840.0 | \$ 668.7 |
| Liabilities and Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 137.2 | \$ 86.4 |
| Current portion of capital leases (Note 5) | 4.1 | 4.0 |
| Accrued compensation | 29.6 | 30.0 |
| Long term debt, current portion (Note 7) | 2.8 | 0.6 |
| Accrued liabilities | 34.2 | 23.8 |
| Total current liabilities | 207.9 | 144.8 |
| Other long-term liabilities | 11.1 | 8.9 |
| Capital leases, less current portion (Note 5) | 6.5 | 7.1 |
| Deferred tax liabilities | 30.0 | 26.2 |
| Long-term debt, less current portion (Note 7) | 431.7 | 177.1 |
| Total liabilities | 687.2 | 364.1 |
| Commitments and contingencies (Note 10) | | |
| Redeemable convertible preferred stock (Note 11) | — | 216.8 |
| Stockholders' equity (Note 1 and Note 11): | | |
| Common stock, par value \$0.01; 1,000,000,000 shares authorized; 39,563,150 and 14,259,998 shares issued, and 39,542,239 and 14,250,111 shares outstanding at October 2, 2016 and January 3, 2016 , respectively | 0.4 | 0.1 |
| Additional paid-in capital | 217.6 | 113.1 |
| Accumulated deficit | (64.2) | (24.2) |
| Accumulated other comprehensive loss | (1.0) | (1.2) |
| Total equity | 152.8 | 87.8 |
| Total liabilities and equity | \$ 840.0 | \$ 668.7 |

See Notes to unaudited Condensed Consolidated Financial Statements.

2

Table of Contents

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

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------------------|-------------------|--------------------|
| | October 2, 2016 | September 27, 2015 | October 2, 2016 | September 27, 2015 |
| Net sales | \$444.5 | \$ 404.5 | \$1,286.5 | \$ 1,111.8 |
| Cost of goods sold (exclusive of depreciation) | 306.1 | 286.1 | 882.5 | 787.3 |
| Gross profit | 138.4 | 118.4 | 404.0 | 324.5 |
| Selling, general and administrative expenses | 107.7 | 98.2 | 330.3 | 262.6 |
| Other income | 1.2 | 1.3 | 3.3 | 2.8 |
| Operating income | 31.9 | 21.5 | 77.0 | 64.7 |
| Interest and other non-operating expenses, net | 6.3 | 2.7 | 15.4 | 7.7 |
| Net income before taxes | 25.6 | 18.8 | 61.6 | 57.0 |
| Income tax expense | 10.7 | 7.4 | 25.4 | 22.2 |
| Net income | 14.9 | 11.4 | 36.2 | 34.8 |
| Less: | | | | |
| Redeemable convertible preferred stock dividends | — | 6.2 | 9.6 | 18.1 |
| Redeemable convertible preferred stock beneficial conversion feature | — | 5.0 | — | 11.6 |
| Special cash dividend paid to preferred stockholders | — | — | 112.4 | — |
| Undistributed earnings allocated to redeemable convertible preferred stock | — | 0.1 | — | 3.2 |
| Net income (loss) attributable to common shares | \$ 14.9 | \$ 0.1 | \$(85.8) | \$ 1.9 |
| Net income (loss) per common share: | | | | |
| Basic | \$0.38 | \$ 0.01 | \$(3.15) | \$ 0.13 |
| Diluted | \$0.36 | \$ 0.01 | \$(3.15) | \$ 0.13 |
| Weighted average number of common shares outstanding (Note 1): | | | | |
| Basic | 39,563,895 | 217,142 | 27,229,336 | 14,195,389 |
| Diluted | 41,009,036 | 546,888 | 27,229,336 | 14,369,084 |

See Notes to unaudited Condensed Consolidated Financial Statements.

Table of Contents

SiteOne Landscape Supply, Inc.

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(In millions)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|---------------|-------------------|---------------|
| | October | September 27, | October | September 27, |
| | 2016 | 2015 | 2016 | 2015 |
| Net income | \$14.9 | \$ 11.4 | \$36.2 | \$ 34.8 |
| Foreign currency translation adjustments | (0.1) | (0.4) | 0.2 | (0.7) |
| Comprehensive income | \$14.8 | \$ 11.0 | \$36.4 | \$ 34.1 |

See Notes to unaudited Condensed Consolidated Financial Statements.

4

Table of Contents

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

| | Nine Months Ended | |
|---|-------------------|--------------------|
| | October 2016 | September 27, 2015 |
| Cash Flows from Operating Activities: | | |
| Net income | \$36.2 | \$ 34.8 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 10.3 | 9.2 |
| Stock-based compensation | 3.4 | 2.2 |
| Amortization of software and intangible assets | 17.1 | 13.3 |
| Amortization of debt related costs | 1.8 | 2.4 |
| Loss on extinguishment of debt | 1.2 | — |
| (Gain) loss on sale of equipment | — | 0.1 |
| Deferred income taxes | — | (5.8) |
| Other | (0.6) | 0.3 |
| Changes in operating assets and liabilities, net of the effects of acquisitions: | | |
| Receivables | (76.8) | (52.1) |
| Inventory | (21.9) | (23.5) |
| Income tax receivable | 4.3 | 12.0 |
| Prepaid expenses and other assets | (12.3) | (4.8) |
| Accounts payable | 38.9 | 42.0 |
| Accrued expenses and other liabilities | 7.6 | 14.5 |
| Net Cash Provided By Operating Activities | \$9.2 | \$ 44.6 |
| Cash Flows from Investing Activities: | | |
| Purchases of property and equipment | (6.2) | (6.4) |
| Acquisitions, net of cash acquired | (56.6) | (99.8) |
| Proceeds from the sale of property and equipment | 0.3 | 0.1 |
| Net Cash Used In Investing Activities | \$(62.5) | \$ (106.1) |
| Cash Flows from Financing Activities: | | |
| Equity proceeds from common stock | — | 2.3 |
| Purchase of treasury stock | (0.2) | (0.1) |
| Special cash dividend | (176.0) | — |
| Other dividends paid | (13.0) | — |
| Borrowings under term loan | 272.3 | — |
| Repayments under term loan | (62.1) | (0.5) |
| Borrowings on asset-based credit facility | 322.6 | 309.9 |
| Repayments on asset-based credit facility | (275.8) | (231.2) |
| Debt issuance costs paid | (3.5) | — |
| Payments on capital lease obligations | (3.1) | (3.0) |
| Other financing activities | (2.2) | — |
| Net Cash Provided By Financing Activities | \$59.0 | \$ 77.4 |
| Effect of exchange rate on cash | 0.1 | (0.2) |
| Net Change In Cash | 5.8 | 15.7 |

Cash and cash equivalents:

5

Table of Contents

| | | |
|-----------|--------|--------|
| Beginning | 20.1 | 10.6 |
| Ending | \$25.9 | \$26.3 |

Supplemental Disclosures of Cash Flow Information:

| | | |
|--|------|------|
| Cash paid during the year for interest | 12.6 | 5.2 |
| Cash paid during the year for income taxes | 20.8 | 16.3 |

Supplemental Disclosures of Noncash Investing and Financing Information:

| | | |
|--|-----|-----|
| Acquisition of property and equipment through capital leases | 2.8 | 3.4 |
|--|-----|-----|

See Notes to unaudited Condensed Consolidated Financial Statements.

6

Table of Contents

SiteOne Landscape Supply, Inc.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Nature of Business and Significant Accounting Policies

Nature of Business

SiteOne Landscape Supply, Inc. (hereinafter collectively with all its consolidated subsidiaries referred to as the “Company”) is a supplier of irrigation, landscape lighting, hardscapes, lawn care supplies, nursery stock, and landscape accessories to green industry professionals. The Company currently has over 450 stores. Substantially all of the Company’s sales are to customers located in the United States of America (“U.S.”), with less than two percent of sales and total assets in Canada for all periods presented. Based on the nature of the Company’s products and customers’ business cycles, sales are significantly higher in the spring and summer months.

Common Stock Split

On April 29, 2016, the Company filed a Certificate of Amendment to amend and restate the Company’s Certificate of Incorporation in the State of Delaware, effecting an 11.6181 for 1 common stock split. Each stockholder’s percentage ownership and proportional voting power remained unchanged as a result of the stock split. All applicable share data, per share amounts and related information in the consolidated financial statements and notes thereto have been adjusted retroactively to give effect to the 11.6181 for 1 common stock split.

Refinancing of Term Loan and Special Cash Dividend

On April 29, 2016, the Company refinanced the existing term loan facility (the “Prior Term Loan Facility”) with an amended and restated \$275.0 million term loan facility maturing in April 2022 (the “Amended Term Loan Facility”). On April 29, 2016, the proceeds from the Amended Term Loan Facility were used to repay all \$60.3 million of borrowings outstanding under the Prior Term Loan Facility, to repay \$29.9 million of borrowings outstanding under the senior asset-based credit facility (the “ABL Facility”), and to pay fees and expenses associated with the refinancing transaction. On May 2, 2016, a one-time special cash dividend of \$176.0 million was paid to existing holders of the Company’s common stock and cumulative convertible participating redeemable preferred stock (“Redeemable Convertible Preferred Stock”) as of April 29, 2016 out of the proceeds from the Amended Term Loan Facility. Of the \$176.0 million paid to stockholders, \$112.4 million was paid to holders of the Redeemable Convertible Preferred Stock in accordance with their right to participate in all distributions to common stockholders on an as-converted basis. The Redeemable Convertible Preferred Stock converted to common stock in accordance with its terms on May 16, 2016 resulting in the issuance by the Company of an additional 25,303,164 shares of its common stock which common shares are included in the weighted average common shares outstanding from that date forward. Prior to May 16, 2016, the Company’s earnings (loss) per share calculation reflected the impact of the Redeemable Convertible Preferred Stock. Since the special cash dividend was paid prior to conversion of the Redeemable Convertible Preferred Stock, the \$112.4 million is reported as a reduction of net income attributable to common shares during the nine months ended October 2, 2016. In conjunction with the payment of the special cash dividend, the Company reduced the exercise price of certain outstanding options and made a cash payment of \$2.8 million to certain holders of options to offset the dilutive impact of the special cash dividend.

Initial Public Offering

On May 11, 2016, the Company's registration statement on Form S-1 (Registration No. 333-206444) relating to an initial public offering ("IPO") of its common stock was declared effective by the U.S. Securities and Exchange Commission ("SEC"). On May 17, 2016, the Company completed the IPO at a price to the public of \$21.00 per share. In connection with the IPO, certain of the Company's stockholders sold an aggregate of 10,000,000 shares of common stock. The underwriters also exercised their option to purchase an additional 1,500,000 shares of common stock, at the public offering price less the underwriting discounts and commissions. The selling stockholders received all of the net proceeds and bore all commissions and discounts from the sale of the Company's common stock. The Company did not receive any proceeds from the IPO.

Table of Contents

Basis of Financial Statement Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) as applicable to interim financial reporting. In management’s opinion, the unaudited condensed financial information for the interim periods presented includes all adjustments, consisting of normal recurring accruals necessary for a fair statement of the financial position, results of operations and cash flows. Certain information and disclosures normally included in our annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC. The condensed consolidated balance sheet as of January 3, 2016 and the unaudited condensed consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements for the fiscal year ended January 3, 2016 included in the Company’s Form S-1/A (Amendment No. 4 to Form S-1) filed with SEC on May 2, 2016 (the “2015 Annual Financial Statements”). The interim period financial results for the three and nine months periods presented are not necessarily indicative of results to be expected for any other interim period or for the entire year.

Use of Estimates

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

Fiscal Year

The Company’s fiscal year is a 52- or 53-week period ending on the Sunday nearest to December 31. The fiscal year ending January 1, 2017 includes 52 weeks and the fiscal year ended January 3, 2016 includes 53 weeks. The three months ended October 2, 2016 and September 27, 2015 both include 13 weeks, and the nine months ended October 2, 2016 and September 27, 2015 both include 39 weeks.

Principles of Consolidation

The Company’s unaudited condensed consolidated financial statements include the assets and liabilities used in operating the Company’s business, including entities in which the Company owns or controls more than 50% of the voting shares. The Company owns 100% of all subsidiaries presented in these financial statements. All intercompany balances and transactions have been eliminated in consolidation.

Significant Accounting Policies

There were no material changes to the Company’s significant accounting policies for the nine months ended October 2, 2016 from those disclosed in the 2015 Annual Financial Statements.

Recently Issued and Adopted Accounting Pronouncements

In September 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update, (“ASU”) No. 2015-16, Simplifying the Accounting for Measurement-Period Adjustments, which amends Accounting Standards Codification (“ASC”) 805, Business Combinations. This ASU requires that acquiring entities recognize measurement period adjustments in the reporting period the amounts are determined, including earnings adjustments that would have been recorded in previous periods if the adjustments were known at the acquisition date. Acquiring entities are no longer required to retrospectively adjust amounts in comparative periods. The adjustment amounts and reasons are still disclosed. The Company adopted ASU 2015-16 when it became effective in the first quarter of fiscal 2016. The adoption did not have a material effect on the Company’s financial position or results of operations.

Accounting Pronouncements Issued But Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which amends existing revenue recognition standards and establishes a new ASC Topic 606. The core principle of this amendment is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods or services. This standard is effective for public entities' annual reporting

8

Table of Contents

periods ended beginning after December 15, 2017, including interim reporting periods ended within that reporting period. Earlier application is permitted only as of annual reporting periods ended beginning after December 15, 2016, including interim reporting periods ended within that reporting period.

The guidance permits two implementation approaches, allowing for either full retrospective adoption or modified retrospective adoption of the new standard. The Company is evaluating the impact of the pending adoption of ASU No. 2014-09. The Company has not selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In July 2015, the FASB issued Accounting Standards Update 2015-11, Simplifying the Measurement of Inventory (“ASU 2015-11”) to simplify the guidance on the subsequent measurement of inventory, excluding inventory measured using last-in, first out, or the retail inventory method. Under the new standard, inventory should be at the lower of cost and net realizable value. The new accounting guidance is effective for interim and annual periods ended beginning after December 15, 2016 with early adoption permitted. The Company is currently evaluating the impact of the pending adoption of ASU 2015-11.

In February 2016, the FASB issued ASU 2016-02, Leases, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective for fiscal years beginning after December 15, 2018 including interim periods within those fiscal years. Early application of the amendment is permitted. The Company is currently evaluating the standard and the impact on its condensed consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation: Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”), which simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the standard and the impact on its condensed consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses - Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”), which changes the way companies evaluate credit losses for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking “expected loss” model to evaluate impairment, potentially resulting in earlier recognition of allowances for losses. The new standard also requires enhanced disclosures, including the requirement to disclose the information used to track credit quality by year of origination for most financing receivables. ASU 2016-13 will be effective for annual periods beginning after December 15, 2019. Early adoption is permitted for all entities for annual periods beginning after December 15, 2018. The guidance must be applied using a cumulative-effect transition method. The Company is currently evaluating the standard and the impact on its condensed consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”), which provides greater clarity to preparers on the treatment of eight items within an entity’s statement of cash flows with the goal of reducing the existing diversity in practice. ASU 2016-15 provides new guidance for eight specific cash flow issues including debt prepayment or debt extinguishment costs, settlement of zero-coupon bonds and bonds with “insignificant” cash coupons, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. The guidance in ASU 2016-15 should be applied using a retrospective transition method to each period presented. ASU 2016-15 becomes effective in fiscal years beginning after December 15, 2017, including interim periods therein. Early adoption of the guidance, including within an interim period, is permitted. The Company is currently evaluating the standard and the impact on its condensed consolidated financial statements.

Table of Contents

Note 2. Acquisitions

From time to time the Company enters into strategic acquisitions in an effort to better service existing customers and to attain new customers. The Company completed the following acquisitions for aggregate cash considerations of approximately \$58.5 million and \$104.0 million for the nine months ended October 2, 2016 and September 27, 2015, respectively.

In September 2016, the Company acquired the assets and assumed liabilities of Glen Allen Nursery & Garden Center, Inc. (“Glen Allen”). With one location in Richmond, VA, Glen Allen is a leader in the distribution of nursery products to landscape professionals.

In August 2016, the Company acquired the assets and assumed liabilities of Bissett Nursery Corp. and acquired all of the outstanding stock of Bissett Equipment Corp. (collectively, “Bissett”). Headquartered in Holtsville, NY, Bissett is a leader in the distribution of nursery, hardscapes, landscape supplies as well as equipment sales, rental and repairs to landscape professionals with three locations serving customers throughout the New York City metropolitan area.

In April 2016, the Company acquired the assets and assumed liabilities of Blue Max Materials, Inc., Blue Max Materials of Charleston, Inc., Blue Max Materials of Columbia, Inc. and Blue Max Materials of the Grand Strand, Inc., which together comprise Blue Max (“Blue Max”), a hardscapes and landscape supplier with five locations serving North Carolina and South Carolina.

In January 2016, the Company acquired all of the outstanding stock of Hydro-Scape Products, Inc. (“Hydro-Scape”), a leading provider of landscape products (irrigation, lighting, maintenance, outdoor living and hardscapes) with 17 locations serving customers throughout Southern California.

In August 2015, the Company acquired the assets and assumed liabilities of Tieco, Inc. (“Tieco”), a distributor of irrigation, landscape, well drilling, athletic field, and pump and well products with six locations throughout Alabama and Florida.

In August 2015, the Company acquired all of the member’s interests of Green Resource, LLC (“Green Resource”), a distributor of maintenance products to large agronomics and golf customers with five locations servicing North and South Carolina.

In May 2015, the Company acquired all of the outstanding stock of AMC Industries, Inc. (“AMC”), a full line distributor of irrigation products and domestic water systems with nine locations throughout Texas and Oklahoma.

In February 2015, the Company acquired all of the outstanding stock of CLP SN Holdings, Inc., the parent company of Shemin Nurseries (“Shemin”), which included 30 store locations supplying primarily nursery goods in 18 major metropolitan markets across 14 states of the Eastern region of the United States and Texas. See further description below under the heading “Shemin Acquisition Accounting”.

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

Shemin Acquisition Accounting:

The Shemin transaction has been accounted for as a business combination using the acquisition method of accounting, whereby the purchase price was allocated to the tangible and intangible assets acquired and liabilities assumed based

on their estimated fair values at the acquisition date, with the excess of purchase price over the estimated fair value of the net assets acquired recorded as goodwill. Transaction related costs incurred in connection with Shemin acquisition were approximately \$2.7 million. These level 3 fair value measurements have been determined based on assumptions that market participants would use in the pricing of the asset or liability. Independent third-party appraisers were engaged to assist management and perform valuation of certain tangible and intangible assets acquired and liabilities assumed.

The real and personal property was valued using the cost, market and income approaches. The income approach was utilized to estimate the fair value of the lease interests via the discounted cash flow methodology. Personal property was valued using the indirect method of the cost approach and the market approach. Using the indirect approach, a reproduction cost of new personal property was determined from the historical cost.

Table of Contents

Intangible assets separately valued in the transaction were customer relationships. Customer relationships were valued using the discounted cash flow method form of the income approach. After tax cash flow was discounted to present value using a 16.0% discount rate. Revenue growth was estimated based on long-term growth rates. Annual attrition was estimated at 10.0%.

The following table summarizes the adjusted aggregate fair values of the assets acquired and liabilities assumed at the acquisition date and subsequent adjustments for Shemin. The estimate of the fair values of assets acquired and liabilities assumed is as follows:

(In millions)

Fair value of consideration transferred:

| | |
|-------------------------------|--------|
| Cash consideration | \$57.8 |
| Working capital adjustment | (0.1) |
| Net consideration transferred | \$57.7 |

Assets acquired, at fair market value:

| | |
|---|--------|
| Cash and cash equivalents | \$2.3 |
| Accounts receivable | 5.7 |
| Inventory | 9.3 |
| Deferred tax assets | 3.5 |
| Prepaid expenses and other current assets | 2.2 |
| Total current assets | 23.0 |
| Property and equipment | 9.9 |
| Intangible assets | 27.2 |
| Other assets | 1.3 |
| Total assets | \$61.4 |

Liabilities assumed, at fair market value:

| | |
|---------------------------|--------|
| Accounts payable | \$6.1 |
| Accrued liabilities | 6.7 |
| Deferred tax liabilities | 12.0 |
| Total liabilities assumed | \$24.8 |

| | |
|----------------------------------|--------|
| Identifiable net assets acquired | \$36.6 |
| Goodwill | 21.1 |
| Net assets acquired | \$57.7 |

Goodwill is calculated as the excess of the purchase price over the estimated fair values of the assets acquired and the liabilities assumed in the acquisition, and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. The amount allocated to goodwill associated with the Shemin acquisition is primarily the result of anticipated synergies. None of the goodwill associated with this transaction will be deductible for income tax purposes.

Table of Contents

On an unaudited pro forma basis, the following represents the consolidated results of the Company had the Company acquired Shemin as of December 29, 2014 (the first day of the Company's fiscal year 2015):

| | Nine Months Ended September 27, 2015 |
|--|---|
| (In millions, except per share data) | |
| Net sales | \$ 1,119.3 |
| Net income available to SiteOne common shareholders | \$ (0.6) |
| Net income per share of common stock attributable to SiteOne - diluted | \$ (0.05) |

Note 3. Property and Equipment, Net

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

| | Useful Life Range in Years | October 2, 2016 | January 3, 2016 |
|---|-------------------------------------|--------------------|--------------------|
| Land | | \$ 14.5 | \$ 14.6 |
| Buildings and leasehold improvements: | | | |
| Buildings | 1 - 20 | 8.3 | 9.8 |
| Leasehold improvements | 1 - 20 | 13.2 | 9.8 |
| Store equipment | 1 - 12 | 17.2 | 14.3 |
| Office furniture and fixtures and vehicles: | | | |
| Office furniture and fixtures | 1 - 12 | 9.8 | 7.9 |
| Vehicles | 2 - 6 | 33.8 | 29.2 |
| Tooling | 7 | 0.5 | 0.1 |
| Construction in process | | 3.2 | 3.1 |
| Total property and equipment, gross | | 100.5 | 88.8 |
| Accumulated depreciation | | 32.6 | 22.6 |
| Total property and equipment, net | | \$ 67.9 | \$ 66.2 |

Depreciation expense was approximately \$3.5 million and \$10.3 million for the three and nine months ended October 2, 2016, respectively, and \$3.4 million and \$9.2 million for the three and nine months ended September 27, 2015, respectively.

Note 4. Goodwill and Intangible Assets, Net
Goodwill

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

| | January 4, 2016 | December 29, 2014 |
|-------------------|--------------------------|-----------------------|
| | to October 2, 2016 | to January 3, 2016 |
| Beginning balance | \$ 48.0 | \$ 11.4 |

Edgar Filing: SiteOne Landscape Supply, Inc. - Form 10-Q

| | | |
|----------------|---------|---------|
| Acquisitions | 18.1 | 36.6 |
| Ending balance | \$ 66.1 | \$ 48.0 |

12

Table of Contents

Additions to goodwill during the interim period 2016 relate to the acquisition of Hydro-Scape, Blue Max, Bissett and Glen Allen (as described in Note 2).

Intangible Assets

During the nine months ended October 2, 2016, the Company recorded \$18.0 million of intangible assets which related to customer relationships and non-competition agreements as a result of the Hydro-Scape, Blue Max, Bissett and Glen Allen acquisitions discussed in Note 2.

The Company's customer relationship intangible assets will be amortized over a weighted-average period of 20 years. Trademarks and other intangible assets will be amortized over a weighted-average period of 9 years.

The following table summarizes the components of intangible assets (in millions except amortization period):

| | Years | October 2, 2016 | | | January 3, 2016 | | |
|------------------------|--------|-----------------|--------------------------|----------|-----------------|--------------------------|----------|
| | | Amount | Accumulated Amortization | Net | Amount | Accumulated Amortization | Net |
| Customer relationships | 10 -21 | \$ 145.1 | \$ 42.3 | \$ 102.8 | \$ 127.7 | \$ 26.5 | \$ 101.2 |
| Trademarks and other | 5 -10 | 5.0 | 1.8 | 3.2 | 4.4 | 1.3 | 3.1 |
| Total intangibles | | \$ 150.1 | \$ 44.1 | \$ 106.0 | \$ 132.1 | \$ 27.8 | \$ 104.3 |

Amortization expense for intangible assets was approximately \$5.9 million and \$16.3 million for the three and nine months ended October 2, 2016, respectively, and \$4.8 million and \$13.0 million for the three and nine months ended September 27, 2015, respectively.

Note 5. Capital Leases

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

| | October 2, 2016 | January 3, 2016 |
|---|-----------------|-----------------|
| Capital lease obligations with rates ranging from 1.4% to 4.5% with monthly payments of approximately \$0.4 million maturing through September 2021 | \$ 10.6 | \$ 11.1 |
| Less current maturities | 4.1 | 4.0 |
| Total capital leases, less current portion | \$ 6.5 | \$ 7.1 |

Note 6. Employee Benefit and Stock Incentive Plan

The Company sponsors a defined contribution benefit plan for substantially all of its employees. Company contributions to the plan are based on a percentage of employee wages. The Company's contributions to the plan were approximately \$1.3 million and \$4.3 million for the three and nine months ended October 2, 2016, respectively, and \$1.0 million and \$2.9 million for the three and nine months ended September 27, 2015, respectively.

Share-based compensation expense is recognized in the financial statements based upon fair value on the date of grant. The Company recognized share-based compensation expense of approximately \$1.1 million and \$4.1 million for the three and nine months ended October 2, 2016, and \$0.8 million and \$2.3 million for the three and nine months ended September 27, 2015, respectively. During the nine months ended October 2, 2016, 87,135 options were forfeited. The Company adopted a new Omnibus Equity Plan (the "Plan") on April 28, 2016. Pursuant to this Plan, the Company granted 216,961 options, 23,103 deferred stock units ("DSUs") and 36,590 restricted stock units ("RSUs") during the nine

months ended October 2, 2016. The fair value of each option award was estimated on the date of grant using the Black-Scholes options pricing model. The DSUs and RSUs have grant date fair

Table of Contents

values equal to the fair market value of the underlying stock on the date of grant. The RSUs and options granted to employees during the nine months ended October 2, 2016 vest over a four-year period at 25 percent per year. The DSUs granted to non-employee directors vest immediately. Total unrecognized compensation cost from share-based compensation arrangements as of October 2, 2016 was approximately \$9.7 million. Share-based compensation expense is expected to be recognized over a weighted-average period of approximately 2.93 years.

Note 7. Debt

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

| | October 2, 2016 | January 3, 2016 |
|---|--------------------|--------------------|
| ABL facility | \$ 174.8 | \$ 128.0 |
| Term loan facility | 273.6 | 60.5 |
| Less: unamortized debt issuance costs and discounts on debt | (13.9) | (10.8) |
| Total debt | \$ 434.5 | \$ 177.7 |
| Less current portion | (2.8) | (0.6) |
| Total long-term debt | \$ 431.7 | \$ 177.1 |

ABL Facility:

On December 23, 2013, SiteOne Landscape Supply Holding, LLC (“Landscape Holding”) and SiteOne Landscape Supply, LLC (“Landscape,” and together with Landscape Holding, the “Borrowers”), each an indirect wholly-owned subsidiary of the Company, entered into the ABL Facility of up to \$250 million, subject to borrowing base availability. The ABL Facility is secured by a first lien on the inventory and receivables. The ABL Facility is guaranteed by SiteOne Landscape Supply Bidco, Inc. (“Bidco”), an indirect wholly-owned subsidiary of the Company. The availability under the ABL Facility was \$130.2 million and \$112.5 million as of October 2, 2016 and January 3, 2016, respectively. Availability is determined using borrowing base calculations of eligible inventory and receivable balances less the current outstanding ABL Facility and letters of credit balances.

The interest rate on the ABL Facility is LIBOR plus an applicable margin ranging from 1.25% to 2.00% or an alternate base rate for U.S. denominated borrowings plus an applicable margin ranging from 0.25% to 1.00%. The interest rates on outstanding balances range from 2.28% to 4.25% and 2.04% to 4.25% as of October 2, 2016 and January 3, 2016, respectively. Additionally, the Borrowers pay a 0.375% and 0.25% commitment fee on the unfunded amount as of October 2, 2016 and January 3, 2016, respectively. The ABL Facility was originally scheduled to mature on December 23, 2018. On October 20, 2015 the ABL Facility was amended to extend the maturity date to October 20, 2020 and increase the availability to \$325.0 million. The other terms of the ABL Facility were not significantly altered.

The ABL Facility contains customary representations and warranties and customary affirmative and negative covenants. The negative covenants consist of the following: fundamental changes, dividends and distributions, acquisitions, collateral, payments and modifications of restricted indebtedness, negative pledge clauses, changes in line of business, currency, commodity and other hedging transactions, transactions with affiliates, investments, limitations on indebtedness and liens. The negative covenants are subject to the customary exceptions and also permit the payment of dividends and distributions, investments, permitted acquisitions and payments or redemptions of junior indebtedness upon satisfaction of a payment condition.

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

agreements to be immediately due and payable, enforce their interest in collateral pledged under the agreement, or restrict the Borrowers' ability to obtain additional borrowings under these agreements.

Table of Contents

Prior Term Loan Facility:

On December 23, 2013, the Borrowers also entered into the Prior Term Loan Facility in an aggregate principal amount of approximately \$61.7 million. The Prior Term Loan Facility was guaranteed by Bidco and each direct and indirect wholly-owned U.S. restricted subsidiary of Landscape. The Prior Term Loan Facility was secured by a first lien on Property and equipment, Intangibles, and equity interests of Landscape, and a second lien on ABL Facility assets. The interest rate on the Prior Term Loan Facility was LIBOR (minimum of 1.0%) plus an applicable margin of 4.0% or an alternate base rate for U.S. denominated borrowings plus an applicable margin of 3.0%. The interest rate on the outstanding balances was 5.0% at January 3, 2016. The Prior Term Loan Facility was scheduled to mature on December 23, 2019.

Amended Term Loan Facility:

On April 29, 2016, the Company refinanced the Prior Term Loan Facility with the \$275.0 million Amended Term Loan Facility maturing in April 2022. On April 29, 2016 the proceeds under the Amended Term Loan Facility were used to repay all \$60.3 million of borrowings outstanding under the Prior Term Loan Facility, to repay \$29.9 million of borrowings outstanding under the ABL Facility, and to pay fees and expenses associated with the refinancing transaction. A special cash dividend of \$176.0 million was paid to existing holders of the Company's common stock and Redeemable Convertible Preferred Stock (on an as-converted basis) as of April 29, 2016 out of the proceeds of the Amended Term Loan Facility. As a result of the refinancing transaction, unamortized debt issuance costs and discounts on the Prior Term Loan Facility in the amount of \$1.2 million were written off to expense, and new discounts and debt issuance costs of \$6.3 million were capitalized. The debt issuance costs and discounts on debt are amortized as interest expense over the life of the debt. The Amended Term Loan Facility bears interest at a rate equal to adjusted LIBOR (minimum of 1.0%) plus an applicable margin of 5.25%, or an alternate base rate for U.S. denominated borrowings plus an applicable margin of 4.25%. The interest rate on the outstanding balance was 6.25% at October 2, 2016.

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

The Amended Term Loan Facility is subject to annual mandatory prepayments in an amount equal to 50% of excess cash flow for the applicable fiscal year if the secured leverage ratio is greater than 3.50 to 1.00.

During the three and nine months ended October 2, 2016, the Company incurred total interest expense of \$6.3 million and \$15.4 million, respectively. Of this total, \$5.6 million and \$12.2 million related to interest on the ABL Facility and the Prior Term Loan Facility and Amended Term Loan Facility for the three and nine months ended October 2, 2016, respectively. Amortization expense related to debt issuance costs was \$0.6 million and \$3.0 million for the three and nine months ended October 2, 2016, respectively. The remaining \$0.1 million and \$0.2 million interest incurred for the three and nine months ended October 2, 2016, respectively, related to interest attributable to capital leases.

During the three and nine months ended September 27, 2015 the Company incurred total interest expense of \$2.7 million and \$7.7 million, respectively. Of this total, \$1.8 million and \$5.1 million related to interest on the ABL Facility and Term Loan Facility for the three and nine months ended September 27, 2015, respectively. Amortization expense related to debt issuance costs was \$0.8 million and \$2.3 million for the three and nine months ended September 27, 2015, respectively. The remaining \$0.1 million and \$0.3 million interest incurred for the three and nine months ended September 27, 2015, respectively, related to interest attributable to capital leases.

Note 8. Income Taxes

The Company's effective tax rate was approximately 41.2% for the nine months ended October 2, 2016 and 38.9% for the nine months ended September 27, 2015, respectively. The increase in the effective rate was due primarily to nondeductible IPO related costs incurred during the nine months ended October 2, 2016 as compared to the nine months ended September 27, 2015. The Company's effective tax rate differs from its statutory rate based on a variety

of factors, including overall profitability, the geographical mix of income taxes and the related tax rates in the jurisdictions in which it operates.

In accordance with the provisions of ASC Topic 740 Income Taxes, the Company provides a valuation allowance against deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The assessment considers all available positive and negative evidence and is measured quarterly. The Company maintains a valuation allowance

15

Table of Contents

against certain state deferred tax assets where sufficient negative evidence exists to require a valuation allowance. During the nine months ended October 2, 2016 and September 27, 2015, respectively, the Company recorded no material increases or decreases to the valuation allowance against deferred tax assets.

Note 9. Related Party Transactions

The Company offers a financing plan to its customers through John Deere Financial, a wholly-owned subsidiary of Deere & Company (“Deere”). The Company paid John Deere Financial fees related to the financing offered of approximately \$0.4 million and \$0.2 million for the nine months ended October 2, 2016 and September 27, 2015, respectively.

In December 2013, CD&R Landscapes Holdings, L.P. (the “CD&R Investor”), an affiliate of Clayton Dubilier & Rice, LLC (“CD&R”), acquired a majority stake in the Company (the “CD&R Acquisition”). In connection with the CD&R Acquisition, SiteOne Landscape Supply, Inc., SiteOne Landscape Supply Midco, Inc., Bidco, Landscape Holding and Landscape entered into consulting agreements (the “Consulting Agreements”) with each of CD&R and Deere. CD&R and Deere each provided consulting services under the Consulting Agreements at an annual fee of \$1.3 million plus expense reimbursement and \$0.7 million plus expense reimbursement, respectively, for a 10-year term or earlier termination if CD&R’s or Deere’s ownership, respectively, of the Company was reduced below 10%. On May 17, 2016, the Company entered into termination agreements with CD&R and Deere pursuant to which the Company paid CD&R and Deere an aggregate fee of approximately \$7.5 million to terminate the Consulting Agreements in connection with the consummation of the IPO. See “Note 11. Redeemable Convertible Preferred Stock” for a discussion of dividends paid to the CD&R investor.

TruGreen is a customer under common ownership of CD&R and therefore became a related party at the time of the CD&R Acquisition. Net sales included in the Company’s consolidated statement of operations with the customer were \$1.1 million and \$3.2 million for the three and nine months ended October 2, 2016, and \$0.9 million and \$3.5 million for the three and nine months ended September 27, 2015, respectively. Accounts receivable included in the Company’s consolidated balance sheets were \$0.7 million and \$0.1 million at October 2, 2016 and January 3, 2016, respectively.

Note 10. Commitments and Contingencies

Environmental liability: As part of the sale by LESCO, Inc. of its manufacturing assets in 2005, the Company retained the environmental liability associated with those assets. Remediation activities can vary substantially in duration and cost and it is difficult to develop precise estimates of future site remediation costs. The Company estimated in accrued liabilities the undiscounted cost of future remediation efforts to be approximately \$4.6 million and \$4.6 million as of October 2, 2016 and January 3, 2016, respectively. As part of the CD&R Acquisition, Deere agreed to pay the first \$2.5 million of the liability and cap the Company’s exposure to \$2.4 million. The Company has recorded an indemnification asset in Other Assets against the liability as a result of these actions of approximately \$2.2 million and \$2.2 million as of October 2, 2016 and January 3, 2016, respectively.

Letters of credit: As of October 2, 2016 and January 3, 2016, outstanding letters of credit were \$2.9 million and \$1.8 million respectively. There were no amounts drawn on the letters of credit for either period presented.

Note 11. Redeemable Convertible Preferred Stock

The CD&R Equity Investment

In connection with the CD&R Acquisition, the Company issued Redeemable Convertible Preferred Stock to the CD&R Investor. On the day prior to the closing of the IPO, all of the then-outstanding Redeemable Convertible Preferred Stock converted into shares of common stock, resulting in the issuance by the Company of an additional 25,303,164 shares of common stock.

In accordance with the SEC guidance within ASC Topic 480, Distinguishing Liabilities from Equity: Classification and Measurement of Redeemable Securities, the Company classified the Redeemable Convertible Preferred Stock as mezzanine equity because the Redeemable Convertible Preferred Stock contains a redemption feature which was contingent upon certain change of control events, the occurrence of which was not solely within the control of the

Company. These contingent events were not considered probable of occurring and as such the Company did not accrete the mezzanine equity to its redemption value each period. The Company determined that none of the features included in the Redeemable Convertible Preferred Stock are required to be accounted for separately as a derivative under ASC Topic 815, Derivatives and Hedging.

The initial issuance of Redeemable Convertible Preferred Stock did not include a beneficial conversion feature (“BCF”) because the conversion price used to set the conversion ratio at the time of issuance was greater than the initial common stock price. The

Table of Contents

Redeemable Convertible Preferred Stock is entitled to a 12% fixed, cumulative dividend payable quarterly in cash or in-kind. Dividends, to the extent paid-in-kind in the form of Redeemable Convertible Preferred Stock, contained the same conversion price as the original issuance and in certain cases did include a BCF as of the dividend payment date. Since the Redeemable Convertible Preferred Stock did not have a fixed or determinable redemption date and was freely convertible at any time, the Company immediately amortized any BCF recognized through retained earnings. As disclosed in Note 1, on May 2, 2016, the Company paid a one-time special cash dividend to all existing stockholders as of April 29, 2016. CD&R Investor received \$112.4 million in accordance with its right to participate in all distributions to common stock on an as-converted basis, in accordance with its right as a preferred stockholder. The Redeemable Convertible Preferred Stock converted to common stock in accordance with its terms on May 16, 2016. During the nine months ended October 2, 2016, the Company paid the cumulative dividends in cash; and accordingly, no BCF was recognized. For the three and nine months ended September 27, 2015, BCF amortization was \$5.0 million and \$11.6 million, respectively.

Note 12. Earnings Per Share

Basic earnings per common share is computed by dividing net income attributable to common shares by the weighted average number of common shares outstanding for the period. The Redeemable Convertible Preferred Stock has the right to participate in all distributions declared and paid on the Company's common stock on an as-converted basis, and is therefore considered a participating security. The Company calculates basic earnings per share using the "two-class" method for the period in which the Redeemable Convertible Preferred Stock is outstanding which reduces income available to common stockholders to reflect the hypothetical distribution of undistributed earnings to the Redeemable Convertible Preferred Stock in accordance with its contractual rights. In each period, the Company reduces income available to common stockholders and increases losses available to common stockholders to reflect the cumulative dividend on the Company's Redeemable Convertible Preferred Stock whether or not declared or paid during the period. Similarly, the Company reduces income available to common stockholders and increases losses available to common stockholders for any amortization of beneficial conversion features recorded during each period.

As disclosed in Note 1, on May 2, 2016, a one-time special cash dividend of \$176.0 million was paid to existing stockholders of the Company as of April 29, 2016. Of the \$176.0 million special cash dividend, \$112.4 million was paid to holders of the Redeemable Convertible Preferred Stock in accordance with its right to participate in all distributions to common stockholders on an as-converted basis. Prior to May 16, 2016, the earnings (loss) per share calculation reflected the impact of the Redeemable Convertible Preferred Stock. Since the special cash dividend was paid prior to conversion of the Redeemable Convertible Preferred Stock, the \$112.4 million is reported as a reduction of net income attributable to common shares during the nine months ended October 2, 2016.

The Company's computation of diluted earnings per common share includes the effect of potential common stock, if dilutive. For the three and nine months ended October 2, 2016 and September 27, 2015, the assumed exercises of a portion of the Company's employee stock options, RSUs, DSUs and the assumed conversion of all of the Redeemable Convertible Preferred Stock were anti-dilutive and, therefore, the following potential shares of common stock were not included in the diluted earnings per common share calculation:

| | For the three months ended | | For the nine months ended | |
|---|----------------------------|--------------------|---------------------------|--------------------|
| | October 2, 2016 | September 27, 2015 | October 2, 2016 | September 27, 2015 |
| Weighted average potential common shares excluded because anti-dilutive Preferred stock | — | 24,202,751 | 12,270,493 | 23,499,816 |

Edgar Filing: SiteOne Landscape Supply, Inc. - Form 10-Q

| | | | | |
|---------------------------------------|--------|---------|-----------|---------|
| Employee stock options, RSUs and DSUs | 11,988 | 793,345 | 3,137,951 | 632,479 |
|---------------------------------------|--------|---------|-----------|---------|

Certain of the Company's employee stock options, RSUs and DSUs were dilutive and resulted in additional potential common shares included in the Company's calculation of diluted earnings per common share of 1,445,141 and 0 for the three and nine months ended October 2, 2016, respectively, and 329,746 and 173,695 for the three and nine months ended September 27, 2015, respectively.

Table of Contents

Note 13. Subsequent Events

In November 2016, the Company acquired the assets and assumed the liabilities of the landscape distribution businesses of Loma Vista Nursery, Inc., a leader in the distribution of nursery and hardscape products to landscape professionals with two locations serving customers in Missouri and Kansas. The acquisition is not material and not expected to have a significant impact on the condensed consolidated financial statements.

Table of Contents

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

The following information should be read in conjunction with the unaudited condensed consolidated financial statements and related notes included in this report. The following discussion may contain forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include those factors discussed below and elsewhere in this report, particularly in “Forward-Looking Statements” and the section entitled “Risk Factors” included in the final prospectus (the “Final Prospectus”) filed with the U.S. Securities and Exchange Commission (the “SEC”) pursuant to Rule 424(b)(4) under the Securities Act of 1933, as amended, on May 12, 2016 (Registration No. 333-206444).

Overview

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

We are the largest and only national wholesale distributor of landscape supplies in the United States and have a growing presence in Canada. Our customers are primarily residential and commercial landscape professionals who specialize in the design, installation and maintenance of lawns, gardens, golf courses and other outdoor spaces. We offer a comprehensive selection of fertilizer and control products (e.g., herbicides), irrigation supplies, landscape accessories, nursery goods, hardscapes (including pavers, natural stones and blocks) and outdoor lighting products. On May 11, 2016, the Company’s registration statement on Form S-1 (Registration No. 333-206444) relating to an IPO of its common stock was declared effective by the SEC. On May 17, 2016, the Company completed the IPO at a price to the public of \$21.00 per share. In connection with the IPO, certain of the Company’s stockholders sold an aggregate of 10,000,000 shares of common stock. The underwriters also exercised their option to purchase an additional 1,500,000 shares of common stock, at the public offering price less the underwriting discounts and commissions. The selling stockholders received all of the net proceeds and bore all commissions and discounts from the sale of our common stock. The Company did not receive any proceeds from the IPO. On the day prior to the closing of the IPO, all of the Company’s then-outstanding cumulative convertible participating redeemable preferred stock (“Redeemable Convertible Preferred Stock”) converted into shares of common stock, resulting in the issuance by the Company of an additional 25,303,164 shares of its common stock. The conversion of Redeemable Convertible Preferred Stock is accounted for from the date of conversion and is not retroactively adjusted in the financial statements.

Presentation

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

Key Business and Performance Metrics

We focus on a variety of indicators and key operating and financial metrics to monitor the financial condition and performance of our business. The results and discussions that follow are reflective of how our executive management monitors the performance and efficiency of our business. From time to time, we supplement the reporting of our financial information determined under GAAP with certain non-GAAP financial measures, including organic sales and Adjusted EBITDA. Organic sales and Adjusted EBITDA are not recognized terms under GAAP and we do not purport organic sales and Adjusted EBITDA to be alternative measures of operating performance under GAAP. We believe that these adjusted measures provide meaningful information to assist investors and analysts in understanding our financial results and assessing our prospects for future performance. We believe these adjusted financial measures to be important indicators of our results of operations because they exclude items that may not be indicative of, or are unrelated to, our core operating results and provide a useful baseline for analyzing trends in our underlying businesses. Our key business and performance metrics are described below and include:

Net sales. We generate net sales primarily through the sale of landscape supplies, including irrigation systems, fertilizer & control products, landscape accessories, nursery goods, hardscapes and outdoor lighting to our customers who are primarily landscape contractors serving the residential and commercial construction sectors. Our net sales include billings for freight and

19

Table of Contents

handling charges, and commissions on the sale of control products that we sell as an agent. Net sales are presented net of any discounts, returns, customer rebates, and sales or other revenue-based tax.

Non-GAAP Organic sales. In managing our business, we consider all growth, including the opening of new greenfield stores, to be organic growth unless it results from an acquisition. When we refer to organic growth, we include increases in growth from newly-opened greenfield stores and decreases in growth from closing existing stores but exclude increases in growth from acquired stores until they have been under our ownership for at least four full fiscal quarters at the start of the fiscal reporting period. We believe organic growth is a useful measure of our growth as we may choose to open or close stores in any given market depending upon the needs of our customers or our strategic growth opportunities.

Cost of goods sold. Our cost of goods sold includes all inventory costs, such as purchase price paid to suppliers, net of any rebates received, as well as inbound freight and handling, and other costs associated with the inventory, including direct and indirect labor costs. Our cost of goods sold excludes the cost to deliver the products to our customers through our stores (which is included in net sales). Cost of goods sold is recognized primarily using the first-in first-out method of accounting for the inventory sold.

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

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

Non-GAAP Adjusted EBITDA. In addition to the metrics discussed above, we believe that Adjusted EBITDA is useful for evaluating our operating performance and efficiency of our business. EBITDA represents our net income (loss) plus the sum of income tax (benefit), depreciation and amortization and interest expense, net of interest income. Adjusted EBITDA represents EBITDA as further adjusted for items such as stock-based compensation expense, related party management fees, loss (gain) on sale of assets, other non-cash items, other non-recurring (income) and loss (as defined below). See “Results of Operations-Quarterly Results of Operations Data” for more information about how we calculate EBITDA and Adjusted EBITDA and the limitations of those metrics.

Key Factors Affecting Our Operating Results

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

Weather Conditions and Seasonality

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

Table of Contents

Industry and Key Economic Conditions

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

Acquisitions

In addition to our organic growth, we continue to grow our business through acquisitions in an effort to better service our existing customers and to attract new customers. These acquisitions have allowed us to further broaden our product lines and extend our geographic reach and leadership positions in local markets. In accordance with GAAP, the results of the acquisitions we have completed are reflected in our financial statements from the date of acquisition forward. We incur transaction costs in connection with identifying and completing acquisitions and ongoing integration costs as we integrate acquired companies and seek to achieve synergies within the acquired companies. We completed the following acquisitions in the nine months ended October 2, 2016 and September 27, 2015:

In September 2016, we acquired the assets and assumed liabilities of Glen Allen Nursery & Garden Center, Inc. (“Glen Allen”). With one location in Richmond, VA, Glen Allen is a leader in the distribution of nursery products to landscape professionals.

In August 2016, we acquired the assets and assumed liabilities of Bissett Nursery Corp. and acquired all of the outstanding stock of Bissett Equipment Corp. (collectively, “Bissett”). Headquartered in Holtsville, NY, Bissett is a leader in the distribution of nursery, hardscapes, landscape supplies as well as equipment sales, rental and repairs to landscape professionals with three locations serving customers throughout the New York City metropolitan area.

In April 2016, we acquired the assets of Blue Max Materials, Inc., Blue Max Materials of Charleston, Inc., Blue Max Materials of Columbia, Inc. and Blue Max Materials of the Grand Strand, Inc., which together comprise Blue Max (“Blue Max”), a hardscapes and landscape supply distributor with five locations in North Carolina and South Carolina.

In January 2016, we acquired the outstanding stock of Hydro-Scape Products Inc. (“Hydro-Scape”), an irrigation distributor with 17 locations in Southern California.

In August 2015, we acquired the assets and assumed liabilities of Tieco, Inc. (“Tieco”), a distributor of irrigation, landscape, well drilling, athletic field, and pump and well products with six locations throughout Alabama and Florida.

In August 2015, we acquired all of the member’s interests of Green Resource, LLC (“Green Resource”), a distributor of maintenance products to large agronomics and golf customers with five locations servicing North and South Carolina.

In May 2015, we acquired the outstanding stock of AMC Industries, Inc. (“AMC”), an irrigation and water systems distributor with nine locations in Texas and Oklahoma.

In February 2015, we acquired all of the outstanding stock of CLP SN Holdings, Inc., the parent company of Shemin Nurseries (“Shemin”), which included 30 store locations supplying primarily nursery goods in 18 major metropolitan markets across 14 states of the Eastern region of the United States and Texas.

Table of Contents

Results of Operations

In the following discussion of our results of operations, we make comparisons between the three and nine months ended October 2, 2016 and September 27, 2015.

Consolidated Statements of Operations

| | Three Months Ended | | | | Nine Months Ended | | | |
|--|--------------------|--------|-----------------------|--------|--------------------|--------|-----------------------|--------|
| | October 2, 2016 | | September 27, 2015 | | October 2, 2016 | | September 27, 2015 | |
| | (in millions) | | | | | | | |
| Net sales | \$444.5 | 100.0% | \$404.5 | 100.0% | \$1,286.5 | 100.0% | \$1,111.8 | 100.0% |
| Cost of goods sold (exclusive of depreciation) | 306.1 | 68.9 % | 286.1 | 70.7 % | 882.5 | 68.6 % | 787.3 | 70.8 % |
| Gross profit | 138.4 | 31.1 % | 118.4 | 29.3 % | 404.0 | 31.4 % | 324.5 | 29.2 % |
| Selling, general and administrative expenses | 107.7 | 24.2 % | 98.2 | 24.3 % | 330.3 | 25.7 % | 262.6 | 23.6 % |
| Other income | 1.2 | 0.3 % | 1.3 | 0.3 % | 3.3 | 0.3 % | 2.8 | 0.3 % |
| Operating income | 31.9 | 7.2 % | 21.5 | 5.3 % | 77.0 | 6.0 % | 64.7 | 5.8 % |
| Interest and other non-operating expenses, net | 6.3 | 1.4 % | 2.7 | 0.7 % | 15.4 | 1.2 % | 7.7 | 0.7 % |
| Income tax expense | 10.7 | 2.4 % | 7.4 | 1.8 % | 25.4 | 2.0 % | 22.2 | 2.0 % |
| Net income | \$14.9 | 3.4 % | \$11.4 | 2.8 % | \$36.2 | 2.8 % | \$34.8 | 3.1 % |

Net sales

Net sales increased 10% to \$444.5 million for the three months ended October 2, 2016 compared with \$404.5 million for the three months ended September 27, 2015, and increased 16% to \$1,286.5 million for the nine months ended October 2, 2016 compared with \$1,111.8 million for the nine months ended September 27, 2015. Organic sales increased 2% in the third quarter and increased 5% overall in the first nine months of 2016 compared with the same period of the prior year. Organic sales growth was driven by sales of irrigation, nursery, lighting, hardscapes, and landscape accessories which grew 4% for the third quarter and 8% for the first nine months of 2016 as the Company continued to benefit from strength in the residential and commercial construction, and the repair and remodel markets. Among these products, organic sales for nursery products declined 4%, as the hot and dry weather across Texas and the East Coast negatively impacted the planting season. Organic sales for fertilizer, control products and other lawn care products decreased 1% for the third quarter and were flat for the first nine months of 2016. Acquisitions contributed \$33.9 million, or 8%, to third quarter growth and \$126.6 million, or 11%, to growth in the first nine months of 2016.

Costs of goods sold

Cost of goods sold increased 7% to \$306.1 million for the three months ended October 2, 2016 compared with \$286.1 million for the three months ended September 27, 2015, and increased 12% to \$882.5 million for the nine months ended October 2, 2016 compared with \$787.3 million for the nine months ended September 27, 2015. The increase in cost of goods sold for the third quarter and the first nine months of 2016 was primarily driven by the increased net sales growth, including acquisitions, partially offset by lower material costs including manufacturer incentives.

Gross profit and gross margin

Gross profit increased 17% to \$138.4 million for the three months ended October 2, 2016 compared to \$118.4 million for the three months ended September 27, 2015, and increased 24% to \$404.0 million for the nine months ended October 2, 2016 compared to \$324.5 million for the nine months ended September 27, 2015. Gross profit growth for the third quarter was driven by the increase in net sales from acquisitions as well as gross margin expansion resulting from our operational improvements. Gross margin increased 180 basis points to 31.1% for the third quarter of 2016 compared to 29.3% for the same period of 2015. For the nine months ended October 2, 2016, gross margin increased 220 basis points to 31.4% as compared to 29.2% for the nine months ended September 27, 2015. Operational improvements in pricing and category management were the primary drivers of the increase.

Table of Contents

Selling, general and administrative expenses (operating expenses)

Operating expenses increased 10% to \$107.7 million for the three months ended October 2, 2016 from \$98.2 million for the three months ended September 27, 2015. For the nine months ended October 2, 2016, operating expenses increased 26% to \$330.3 million from \$262.6 million for the nine months ended September 27, 2015. The increase in the third quarter primarily reflects additional staff and operating expenses associated with our acquisitions. The increase for the first nine months of 2016 reflects the impact of acquisitions, higher personnel costs to support our growth initiatives, and expenses associated with our dividend recapitalization and IPO. The dividend recapitalization and IPO related expenses for the first nine months were approximately \$11 million, including a \$7.5 million fee paid to terminate Consulting Agreements with CD&R and Deere. Operating expense expressed as a percentage of net sales slightly decreased to 24.2% for the three months ended October 2, 2016 compared to 24.3% for the three months ended September 27, 2015, and increased to 25.7% for the nine months ended October 2, 2016 from 23.6% for the nine months ended September 27, 2015. The increase for the first nine months of 2016 reflects the personnel, IPO and debt recapitalization expenses. Depreciation and amortization expense increased \$1.5 million to \$9.7 million for the three months ended October 2, 2016 compared to \$8.2 million for three months ended September 27, 2015, and increased \$4.9 million to \$27.4 million for the nine months ended October 2, 2016 compared to \$22.5 million for the nine months ended September 27, 2015, primarily as a result of our acquisitions.

Interest and other non-operating expenses, net

Interest and other non-operating expenses increased \$3.6 million to \$6.3 million for the three months ended October 2, 2016 from \$2.7 million for the three months ended September 27, 2015, and increased \$7.7 million to \$15.4 million for the nine months ended October 2, 2016 from \$7.7 million for the nine months ended September 27, 2015. These increases reflect an increase in the interest rate and outstanding debt levels following our dividend recapitalization.

Income tax (benefit) expense

Income tax expense was \$10.7 million for the three months ended October 2, 2016 as compared to \$7.4 million for the three months ended September 27, 2015. For the nine months ended October 2, 2016, income tax expense was \$25.4 million as compared to \$22.2 million for the nine months ended September 27, 2015. The effective tax rate was 41.8% for the three months ended October 2, 2016 as compared to 39.4% for the three months ended September 27, 2015. For the nine months ended October 2, 2016, the effective tax rate was 41.2% as compared to 38.9% for the nine months ended September 27, 2015. The increase in the effective tax rate was due primarily to nondeductible IPO related costs incurred during 2016.

Net income

Net income increased \$3.5 million to \$14.9 million for the three months ended October 2, 2016 compared to \$11.4 million for the three months ended September 27, 2015. For the nine months ended October 2, 2016, net income increased \$1.4 million to \$36.2 million for the nine months ended October 2, 2016 from \$34.8 million for the nine months ended September 27, 2015. The increase in net income for the third quarter was primarily attributable to the higher sales volume and the improvement in gross margin.

Table of Contents

Quarterly Results of Operations Data

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

| | Three Months Ended | | | | | | | |
|---|--------------------|--------------|---------------|-----------------|--------------------|---------------|----------------|-------------------|
| | October 2016 | July 3, 2016 | April 3, 2016 | January 3, 2016 | September 27, 2015 | June 28, 2015 | March 29, 2015 | December 28, 2014 |
| | (in millions) | | | | | | | |
| Net sales | \$444.5 | \$513.4 | \$328.5 | \$339.8 | \$404.5 | \$481.5 | \$225.8 | \$249.5 |
| Cost of goods sold | 306.1 | 344.9 | 231.5 | 235.2 | 286.1 | 334.0 | 167.2 | 184.0 |
| Gross profit | 138.4 | 168.5 | 97.0 | 104.6 | 118.4 | 147.5 | 58.6 | 65.5 |
| Selling, general and administrative expenses | 107.7 | 118.0 | 104.6 | 110.7 | 98.2 | 91.3 | 73.1 | 68.8 |
| Other income | 1.2 | 1.0 | 1.2 | 1.2 | 1.3 | 0.7 | 0.8 | 1.1 |
| Operating income (loss) | 31.9 | 51.5 | (6.4) | (4.9) | 21.5 | 56.9 | (13.7) | (2.2) |
| Interest and other non-operating (income) expenses | 6.3 | 6.5 | 2.6 | 3.6 | 2.7 | 2.6 | 2.4 | 2.2 |
| Income tax (benefit) expense | 10.7 | 18.1 | (3.4) | (2.7) | 7.4 | 21.1 | (6.3) | (1.8) |
| Net income (loss) | \$14.9 | \$26.9 | \$(5.6) | \$(5.8) | \$11.4 | \$33.2 | \$(9.8) | \$(2.6) |
| Adjusted EBITDA ⁽¹⁾ | \$43.7 | \$74.9 | \$4.5 | \$11.9 | \$33.7 | \$66.6 | \$(5.7) | \$7.1 |
| Net sales as a percentage of annual net sales | | | | 23.4 % | 27.9 % | 33.2 % | 15.5 % | 21.2 % |
| Gross profit as a percentage of annual gross profit | | | | 24.4 % | 27.6 % | 34.4 % | 13.6 % | 21.1 % |
| Adjusted EBITDA as a percentage of annual Adjusted EBITDA | | | | 11.2 % | 31.7 % | 62.4 % | (5.3)% | 9.6 % |

In addition to our net income (loss) determined in accordance with GAAP, we present Adjusted EBITDA in this report to evaluate the operating performance and efficiency of the Company's business. EBITDA represents our net income (loss) plus the sum of income tax (benefit), depreciation and amortization and interest expense, net of interest income. Adjusted EBITDA is further adjusted for stock-based compensation expense, related party advisory fees, loss (gain) on sale of assets, other non-cash items, other non-recurring (income) and loss. We believe that Adjusted EBITDA is an important supplemental measure of operating performance because:

- Adjusted EBITDA is used to test compliance with certain covenants under our long-term debt agreements;
- we believe Adjusted EBITDA is frequently used by securities analysts, investors and other interested parties in their evaluation of companies, many of which present an Adjusted EBITDA measure when reporting their results;
- we believe Adjusted EBITDA is helpful in highlighting operating trends, because it excludes the results of decisions that are outside the control of operating management and that can differ significantly from company to company depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate, age and book depreciation of facilities and capital investments;
- we consider (gains) losses on the acquisition, disposal and impairment of assets as resulting from investing decisions rather than ongoing operations; and
-

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

Table of Contents

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

- do not reflect changes in, or cash requirements for, our working capital needs;
- do not reflect our interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- do not reflect our income tax (benefit) expense or the cash requirements to pay our income taxes;
- do not reflect historical cash expenditures or future requirements for capital expenditures or contractual commitments;
- and
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and do not reflect any cash requirements for such replacements.

Management compensates for these limitations by relying primarily on our GAAP results and by using Adjusted EBITDA only as a supplement to provide a more complete understanding of the factors and trends affecting the business than GAAP results alone. Because not all companies use identical calculations, our presentation of Adjusted EBITDA may not be comparable to other similarly titled measures of other companies limiting their usefulness as a comparative measure. The following table presents a reconciliation of Adjusted EBITDA to net income (loss):

| | Three Months Ended | | | | | | | |
|---|--------------------|--------------|---------------|-----------------|--------------------|---------------|----------------|-------------------|
| | October 3, 2016 | July 3, 2016 | April 3, 2016 | January 3, 2016 | September 27, 2015 | June 28, 2015 | March 29, 2015 | December 28, 2014 |
| | (in millions) | | | | | | | |
| Reported net income (loss) | \$14.9 | \$26.9 | \$(5.6) | \$(5.8) | \$ 11.4 | \$ 33.2 | \$(9.8) | \$(2.6) |
| Income tax (benefit) expense | 10.7 | 18.1 | (3.4) | (2.7) | 7.4 | 21.1 | (6.3) | (1.8) |
| Interest expense, net | 6.3 | 6.5 | 2.6 | 3.6 | 2.7 | 2.6 | 2.4 | 2.1 |
| Depreciation & amortization | 9.7 | 9.1 | 8.6 | 8.7 | 8.2 | 7.9 | 6.4 | 5.6 |
| EBITDA | 41.6 | 60.6 | 2.2 | 3.8 | 29.7 | 64.8 | (7.3) | 3.3 |
| Stock-based compensation ^(a) | 1.1 | 2.2 | 0.7 | 0.7 | 0.8 | 0.8 | 0.7 | 0.6 |
| (Gain) loss on sale of assets ^(b) | — | — | (0.1) | 0.2 | — | 0.2 | — | — |
| Advisory fees ^(c) | — | 8.0 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Financing fees ^(d) | 0.4 | 3.1 | — | 3.5 | 2.0 | — | — | — |
| Rebranding and other adjustments ^(e) | 0.6 | 1.0 | 1.2 | 3.2 | 0.7 | 0.3 | 0.4 | 2.7 |
| Adjusted EBITDA ^(f) | \$43.7 | \$74.9 | \$4.5 | \$ 11.9 | \$ 33.7 | \$ 66.6 | \$(5.7) | \$ 7.1 |

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

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

(c) Represents fees paid to CD&R and Deere for consulting services. In connection with the IPO, we entered into termination agreements with CD&R and Deere pursuant to which the parties agreed to terminate the related consulting agreements. See “Certain Relationships and Related Party Transactions-Consulting Agreements” within our Final Prospectus.

(d) Represents fees associated with our debt refinancing activities completed during the second quarter of the 2016 Fiscal Year and debt amendment completed during the fourth quarter of the 2015 Fiscal Year; as well as fees incurred in connection with our initial registration process, which were recorded as an expense during the second and third quarter of the 2016 Fiscal Year and the third and fourth quarter of the 2015 Fiscal Year.

(e) Represents (i) expenses related to our rebranding to the name SiteOne, (ii) professional fees, retention and performance bonuses related to historical acquisitions, (iii) severance payments and (iv) consulting and professional fees. Although we have incurred professional fees, retention and performance bonuses related to

acquisitions in several historical periods and expect to incur such fees for any future acquisitions, we cannot predict the timing or amount of any such fees.

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

Table of Contents

Liquidity and Capital Resources

Our ongoing liquidity needs are expected to be funded by cash on hand, net cash provided by operating activities and, as required, borrowings under the senior asset-based credit facility (the “ABL Facility”). We expect that cash provided from operations and available capacity under the ABL Facility will provide sufficient funds to operate our business, make expected capital expenditures, and meet our liquidity requirements for the following 12 months, including payment of interest and principal on our debt.

Our borrowing base capacity under the ABL Facility was \$130.2 million as of October 2, 2016, after giving effect to approximately \$174.8 million of revolving credit loans under the ABL Facility, an increase of \$46.8 million from \$128.0 million of revolving credit loans as of January 3, 2016. As of October 2, 2016, we had total cash and cash equivalents of \$25.9 million, total debt of \$434.5 million and capital leases of \$10.6 million.

Working capital was \$383.0 million as of October 2, 2016, an increase of \$85.6 million as compared to \$297.4 million as of January 3, 2016. The increase in working capital is primarily attributable to the seasonality of our business and the impact of our acquisitions.

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

| | Nine Months Ended | |
|--|-------------------|---------------|
| | October 2, | September 27, |
| | 2016 | 2015 |
| | (in millions) | |
| Net cash provided by (used in): | | |
| Operating activities | \$9.2 | \$ 44.6 |
| Investing activities | \$(62.5) | \$ (106.1) |
| Financing activities | \$59.0 | \$ 77.4 |
| Cash flow provided by operating activities | | |

Cash flow from operating activities for the nine months ended October 2, 2016 was \$9.2 million compared to \$44.6 million for the nine months ended September 27, 2015. Cash flow from operations during the first nine months of 2016 was lower than the first nine months of 2015 due to an increase in working capital to support the growth of the business, primarily in accounts receivables, and a favorable impact in 2015 from a change in the timing of our annual bonus payment.

Cash flow used in investing activities

Cash used in investing activities was \$62.5 million for the nine months ended October 2, 2016 compared to \$106.1 million for the nine months ended September 27, 2015. The decrease reflects the lower investment in acquisitions during the first nine months of 2016 compared to the same period of 2015. Capital expenditures were \$6.2 million for the first nine months of 2016, down slightly from \$6.4 million for the first nine months of 2015.

Cash flow provided by financing activities

Cash provided by financing activities was \$59.0 million for the nine months ended October 2, 2016 compared to cash provided of \$77.4 million for the nine months ended September 27, 2015. Cash flows from financing activities in 2016 reflects the borrowings under our new term loan of \$272.3 million, repayments of the prior term loan facility of \$60.3 million and the payment of the special cash dividend of \$176.0 million as well as the preferred stock dividend payments of \$13.0 million. Cash requirements were less for the first nine months of 2016 when compared to the first nine months of 2015 due to the lower investment in acquisitions.

Table of Contents

External Financing

Term Loan Facility

Prior Term Loan Facility

On December 23, 2013, Landscape Holding and Landscape (collectively, the “Term Loan Borrowers”) entered into a senior term loan facility (the “Prior Term Loan Facility”) in an aggregate principal amount of approximately \$61.7 million. The Prior Term Loan Facility was guaranteed by SiteOne Landscape Supply Bidco, Inc. (“Bidco”), an indirect wholly-owned subsidiary of SiteOne Landscape Supply, Inc., and each direct and indirect wholly-owned U.S. restricted subsidiary of Landscape.

Refinancing

On April 29, 2016, we completed the refinancing of the Prior Term Loan Facility by entering into a senior secured term loan facility in the amount of \$275.0 million (the “Amended Term Loan Facility”). We used borrowings under the Amended Term Loan Facility to repay all \$60.3 million of borrowings outstanding under the Prior Term Loan Facility, repay \$29.9 million of borrowings outstanding under the ABL Facility, pay the Special Cash Dividend and pay fees and expenses associated with the refinancing.

Amended Term Loan Facility

The Term Loan Borrowers are parties to the Amended and Restated Term Loan Credit Agreement, dated April 29, 2016, with UBS AG, Stamford Branch as administrative agent and collateral agent, and the other financial institutions and lenders from time to time party thereto (the “Amended and Restated Term Loan Credit Agreement”) providing for the Amended Term Loan Facility.

The final maturity date of the Amended Term Loan Facility is April 29, 2022. In addition, however, the Amended and Restated Term Loan Credit Agreement provides the right for individual lenders to extend the maturity date of their loans upon the request of the Term Loan Borrowers and without the consent of any other lender.

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

The Amended Term Loan Facility is subject to mandatory prepayment provisions, covenants and events of default described in “Description of Certain Indebtedness-Term Loan Facility” within our Final Prospectus. Failure to comply with these covenants and other provisions could result in an event of default under the Amended Term Loan Facility. If an event of default occurs, the lenders could elect to declare all amounts outstanding under the Amended Term Loan Facility to be immediately due and payable and enforce their interest in collateral pledged under the agreement. As of October 2, 2016, the outstanding balance on the Amended Term Loan Facility was \$273.6 million. The interest rate on the Amended Term Loan Facility is LIBOR (minimum of 1.0%) plus an applicable margin of 5.25%. The interest rate on the outstanding balance as of October 2, 2016 was 6.25%.

ABL Facility

Landscape Holding and Landscape are borrowers under the ABL Facility of up to \$325.0 million, subject to borrowing base availability. The ABL Facility is secured by a first lien on the inventory and receivables. The ABL Facility is guaranteed by Bidco. Availability is determined using borrowing base calculations of eligible inventory and receivable balances. The interest rate on the ABL Facility is LIBOR plus an applicable margin ranging from 1.25% to 2.00% or an alternate base rate for U.S. dollar-denominated borrowings plus an applicable margin ranging from 0.25% to 1.00%. The interest rates on outstanding balances as of October 2, 2016 range from 2.28% to 4.25%. Additionally, the borrowers pay a 0.375% and 0.25% commitment fee on the unfunded amount as of October 2, 2016 and January 2, 2016, respectively. As of October 2, 2016, the outstanding balance on the ABL Facility was \$174.8 million. The ABL Facility matures on October 20, 2020.

The ABL Facility is subject to mandatory prepayments if the outstanding loans and letters of credit exceed either the aggregate revolving commitments or the current borrowing base, in an amount equal to such excess. Additionally, the ABL Facility is subject to various covenants requiring minimum financial ratios, and additional borrowings may be limited by these financial ratios. The ABL Facility is also subject to other covenants and events of default described in

“Description of Certain Indebtedness-ABL Facility” within our Final Prospectus. Failure to comply with these covenants and other provisions could

27

Table of Contents

result in an event of default under the ABL Facility. If an event of default occurs, the lenders could elect to declare all amounts outstanding under the ABL Facility to be immediately due and payable, enforce their interest in collateral pledged under the agreement or restrict the borrowers' ability to obtain additional borrowings thereunder.

Limitations on Distributions and Dividends by Subsidiaries

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

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

Contractual Obligations and Commitments

The following table summarizes material changes to our contractual obligations as of October 2, 2016, resulting from the changes in our long term debt. The changes during the nine months ended October 2, 2016 were primarily the result of the refinancing of the Prior Term Loan Facility and increased borrowing under the ABL Facility.

| | Payment Due by Period | | | | |
|---|-----------------------|--------------|--------------|--------------|----------------------------|
| | (in millions) | | | | |
| | | Less than | 1-3 Years | 3-5 Years | More than 5 Years |
| Total | 1 Year | 1-3 Years | 3-5 Years | 5 Years | |
| Long term debt, including current maturities ⁽¹⁾ | \$448.4 | \$2.8 | \$4.8 | \$181.0 | \$259.8 |
| Interest on long term debt ⁽²⁾ | 113.5 | 22.1 | 39.4 | 42.5 | 9.5 |

(1) For additional information see "Note 7. Debt" in the notes to the condensed consolidated financial statements. In addition, the table excludes the debt issuance costs and debt discounts of \$13.9 million.

Interest payments on debt are calculated for future periods using interest rates in effect as of October 2, 2016.

Certain of these projected interest payments may differ in the future based on changes in floating interest rates or other factors and events. The projected interest payments only pertain to obligations and agreements outstanding as of October 2, 2016. See "Note 7. Debt" in the notes to the condensed consolidated financial statements for further information regarding our debt instruments.

Off-Balance Sheet Arrangements

In accordance with GAAP, operating leases for the majority of our store locations are not reflected in our consolidated balance sheet.

Critical Accounting Estimates

There were no material changes in our critical accounting estimates since the filing of our Final Prospectus.

Recently Issued and Adopted Accounting Pronouncements

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

Accounting Pronouncements Issued But Not Yet Adopted

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

Table of Contents

Forward-Looking Statements

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

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes from the information provided in our Final Prospectus.

Table of Contents

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this report. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Table of Contents

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

We discuss in our Final Prospectus filed with the SEC on May 12, 2016 pursuant to Rule 424(b)(4) under the Securities Act of 1933, as amended, (Registration No. 333-206444) and our other filings with the SEC, various risks that may materially affect our business. There have been no material changes to the risk factors disclosed in the Final Prospectus. The materialization of any risks and uncertainties identified in “Forward-Looking Statements” contained in this report together with those previously disclosed in the Final Prospectus and our other filings with the SEC or those that are presently unforeseen could result in significant adverse effects on our financial condition, results of operations and cash flows. See “Forward-Looking Statements.”

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

None.

Item 5. Other Information

We intend to hold our first Annual Meeting of Shareholders (the “Annual Meeting”) on or about May 16, 2017, with the exact date, time and location to be determined and specified in our proxy statement related to the Annual Meeting.

In accordance with the SEC’s proxy rules, we have set the deadline for submission of proposals to be included in our proxy materials for the Annual Meeting as the close of business on January 24, 2017. Accordingly, in order for a shareholder proposal to be considered for inclusion in our proxy materials for the Annual Meeting, the proposal must be received by our Secretary, SiteOne Landscape Supply, Inc., 300 Colonial Center Parkway, Suite 600, Roswell, Georgia 30076, on or before the close of business on January 24, 2017, and must comply with the procedures and requirements set forth in Rule 14a-8 under the Exchange Act.

In accordance with the advance notice requirements contained in our Second Amended and Restated By-Laws, for director nominations or other business to be brought before the Annual Meeting by a shareholder, other than Rule 14a-8 proposals described above, written notice must be delivered no earlier than on January 16, 2017 and no later than the close of business on February 15, 2017, to our Secretary, SiteOne Landscape Supply, Inc., 300 Colonial Center Parkway, Suite 600, Roswell, Georgia 30076. These shareholder notices also must comply with the requirements of our Second Amended and Restated By-Laws and will not be effective otherwise.

Table of Contents

Item 6. Exhibits.

| Exhibit Number | Description |
|----------------|--|
| 31.1# | Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a - 14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2# | Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a - 14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1# | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2# | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS# | XBRL Instance Document |
| 101.SCH# | XBRL Taxonomy Extension Schema |
| 101.CAL# | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF# | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB# | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE# | XBRL Extension Presentation Linkbase |

Filed herewith.

Table of Contents

SIGNATURES

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

SITEONE LANDSCAPE SUPPLY, INC.

Date: November 7, 2016 By: /s/ John T. Guthrie

John T. Guthrie

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