

PATRICK INDUSTRIES INC  
Form 10-Q  
November 08, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018  
OR

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

For the transition period from ..... to .....

Commission file number 000-03922

PATRICK INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

INDIANA

35-1057796

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

107 WEST FRANKLIN STREET, P.O. Box 638, ELKHART, IN 46515

(Address of principal executive offices)

(ZIP Code)

(574) 294-7511

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 [X] 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

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

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ] (Do not check if a Smaller reporting company [ ] Emerging growth company [ ]

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

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

Yes  No

As of October 26, 2018, there were 24,006,927 shares of the registrant's common stock outstanding.

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PATRICK INDUSTRIES, INC.

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## PART 1: FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## PATRICK INDUSTRIES, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Unaudited)

| (thousands)                                       | As of                 |                      |
|---|-----------------------|----------------------|
|   | September 30,<br>2018 | December 31,<br>2017 |
| <b>ASSETS</b>                                     |                       |                      |
| Current Assets                                    |                       |                      |
| Cash and cash equivalents                         | \$ 306                | \$ 2,767             |
| Trade receivables, net                            | 129,850               | 77,784               |
| Inventories                                       | 242,456               | 175,270              |
| Prepaid expenses and other                        | 17,111                | 18,132               |
| Total current assets                              | 389,723               | 273,953              |
| Property, plant and equipment, net                | 170,416               | 118,486              |
| Goodwill  | 258,113               | 208,044              |
| Intangible assets, net                            | 396,417               | 263,467              |
| Deferred financing costs, net                     | 3,784                 | 2,184                |
| Other non-current assets                          | 658                   | 510                  |
| <b>TOTAL ASSETS</b>                               | <b>\$1,219,111</b>    | <b>\$ 866,644</b>    |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |                       |                      |
| Current Liabilities                               |                       |                      |
| Current maturities of long-term debt              | \$ 7,500              | \$ 15,766            |
| Accounts payable                                  | 96,204                | 84,109               |
| Accrued liabilities                               | 70,511                | 36,550               |
| Total current liabilities                         | 174,215               | 136,425              |
| Long-term debt, less current maturities, net      | 594,334               | 338,111              |
| Deferred tax liabilities, net                     | 21,302                | 13,640               |
| Other long-term liabilities                       | 15,042                | 7,783                |
| <b>TOTAL LIABILITIES</b>                          | <b>804,893</b>        | <b>495,959</b>       |
| <b>SHAREHOLDERS' EQUITY</b>                       |                       |                      |
| Common stock                                      | 162,925               | 163,196              |
| Additional paid-in-capital                        | 25,480                | 8,243                |
| Accumulated other comprehensive income            | 115                   | 66                   |
| Retained earnings                                 | 225,698               | 199,180              |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                 | <b>414,218</b>        | <b>370,685</b>       |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | <b>\$1,219,111</b>    | <b>\$ 866,644</b>    |

See accompanying Notes to Condensed Consolidated Financial Statements.

PATRICK INDUSTRIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

| (thousands except per share data)                 | Third Quarter Ended |           | Nine Months Ended |             |
|---|---------------------|-----------|-------------------|-------------|
|   | September           | September | September         | September   |
|   | 30, 2018            | 24, 2017  | 30, 2018          | 24, 2017    |
| NET SALES   | \$575,139           | \$407,511 | \$1,731,850       | \$1,160,083 |
| Cost of goods sold                                | 468,484             | 338,328   | 1,412,649         | 961,851     |
| GROSS PROFIT                                      | 106,655             | 69,183    | 319,201           | 198,232     |
| Operating Expenses:                               |                     |           |                   |             |
| Warehouse and delivery                            | 19,789              | 11,016    | 55,540            | 32,442      |
| Selling, general and administrative               | 33,284              | 22,756    | 98,999            | 63,755      |
| Amortization of intangible assets                 | 8,873               | 5,237     | 25,140            | 14,239      |
| Total operating expenses                          | 61,946              | 39,009    | 179,679           | 110,436     |
| OPERATING INCOME                                  | 44,709              | 30,174    | 139,522           | 87,796      |
| Interest expense, net                             | 7,338               | 2,135     | 17,980            | 6,159       |
| Income before income taxes                        | 37,371              | 28,039    | 121,542           | 81,637      |
| Income taxes                                      | 9,437               | 10,094    | 28,680            | 24,965      |
| NET INCOME  | \$27,934            | \$17,945  | \$92,862          | \$56,672    |
| <br>  |                     |           |                   |             |
| BASIC NET INCOME PER COMMON SHARE (1)             | \$1.17              | \$0.73    | \$3.82            | \$2.35      |
| DILUTED NET INCOME PER COMMON SHARE (1)           | \$1.15              | \$0.72    | \$3.77            | \$2.32      |
| <br>  |                     |           |                   |             |
| Weighted average shares outstanding - Basic (1)   | 23,894              | 24,663    | 24,279            | 24,066      |
| Weighted average shares outstanding - Diluted (1) | 24,232              | 25,032    | 24,619            | 24,476      |

(1) Net income per common share and weighted average shares outstanding, on both a basic and diluted basis, for the third quarter and nine months ended September 24, 2017, have been retroactively adjusted to reflect the impact of the three-for-two stock split paid on December 8, 2017.

See accompanying Notes to Condensed Consolidated Financial Statements.

PATRICK INDUSTRIES, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

| (thousands)                                    | Third Quarter Ended   |                       | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September<br>30, 2018 | September<br>24, 2017 | September<br>30, 2018 | September<br>24, 2017 |
| NET INCOME                                     | \$27,934              | \$ 17,945             | \$92,862              | \$ 56,672             |
| Other comprehensive gain (loss), net of tax:   |                       |                       |                       |                       |
| Change in unrealized gain of hedge derivatives | 80                    | —                     | 80                    | —                     |
| Foreign currency translation loss              | (28 )                 | —                     | (31 )                 | —                     |
| Total other comprehensive income               | 52                    | —                     | 49                    | —                     |
| COMPREHENSIVE INCOME                           | \$27,986              | 17,945                | \$92,911              | 56,672                |

See accompanying Notes to Condensed Consolidated Financial Statements.

PATRICK INDUSTRIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

| (thousands)   | Nine Months Ended |            |
|---|-------------------|------------|
|   | September         | September  |
|   | 30, 2018          | 24, 2017   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                   |            |
| Net income  | \$92,862          | \$ 56,672  |
| Adjustments to reconcile net income to net cash provided by operating activities:   |                   |            |
| Depreciation and amortization   | 39,893            | 24,516     |
| Stock-based compensation expense  | 10,911            | 7,750      |
| Amortization of convertible notes debt discount                                     | 4,495             | —          |
| Deferred income taxes   | (1,088 )          | (3,748 )   |
| Other non-cash items  | (2,739 )          | 499        |
| Change in operating assets and liabilities, net of acquisitions of businesses:      |                   |            |
| Trade receivables   | (29,295 )         | (57,346 )  |
| Inventories   | (13,238 )         | (20,093 )  |
| Prepaid expenses and other assets   | 4,299             | (2,240 )   |
| Accounts payable, accrued liabilities and other                                     | 21,313            | 26,857     |
| Net cash provided by operating activities   | 127,413           | 32,867     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                   |            |
| Capital expenditures  | (26,073 )         | (13,238 )  |
| Business acquisitions   | (290,052)         | (97,261 )  |
| Other investing activities  | 5,125             | 170        |
| Net cash used in investing activities   | (311,000)         | (110,329 ) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                   |            |
| Term debt borrowings  | 36,981            | —          |
| Term debt repayments  | (6,441 )          | (7,883 )   |
| Borrowings on revolver  | 954,535           | 353,442    |
| Repayments on revolver  | (877,931)         | (358,365 ) |
| Stock repurchases under buyback program   | (75,028 )         | —          |
| Proceeds from convertible notes offering  | 172,500           | —          |
| Purchase of convertible notes hedges  | (31,481 )         | —          |
| Proceeds from sale of warrants  | 18,147            | —          |
| Payments related to vesting of stock-based awards, net of shares tendered for taxes | (2,659 )          | (3,042 )   |
| Proceeds from public offering of common stock, net of expenses                      | —                 | 93,306     |
| Proceeds from exercise of stock options   | 3                 | 926        |
| Payment of deferred financing/debt issuance costs                                   | (7,485 )          | (995 )     |
| Other financing activities  | (15 )             | (5 )       |
| Net cash provided by financing activities   | 181,126           | 77,384     |
| Decrease in cash and cash equivalents   | (2,461 )          | (78 )      |
| Cash and cash equivalents at beginning of year                                      | 2,767             | 6,449      |
| Cash and cash equivalents at end of period  | \$306             | \$ 6,371   |

See accompanying Notes to Condensed Consolidated Financial Statements.

PATRICK INDUSTRIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

## 1. BASIS OF PRESENTATION

In the opinion of Patrick Industries, Inc. (“Patrick” or the “Company”), the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly the Company’s financial position as of September 30, 2018 and December 31, 2017, and its results of operations and cash flows for the three and nine months ended September 30, 2018 and September 24, 2017.

Patrick’s unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to those rules or regulations. For a description of significant accounting policies used by the Company in the preparation of its consolidated financial statements, please refer to Note 2 of the Notes to Consolidated Financial Statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. The December 31, 2017 condensed consolidated statement of financial position data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. Operating results for the third quarter and nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018.

The number of shares and per share amounts for the third quarter and nine months ended September 24, 2017 have been retroactively adjusted to reflect the three-for-two stock split of the Company's common stock, which was effected in the form of a common stock dividend paid on December 8, 2017.

In preparation of Patrick’s condensed consolidated financial statements as of and for the third quarter and nine months ended September 30, 2018, management evaluated all material subsequent events or transactions that occurred after the balance sheet date through the date of issuance of the Form 10-Q that required recognition or disclosure in the condensed consolidated financial statements. See Note 15 for an event that occurred subsequent to the balance sheet date.

## 2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

### Leases

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, "Leases (Topic 842)", which requires that an entity recognize lease assets and lease liabilities on its statement of financial position for leases in excess of one year that were previously classified as operating leases under U.S. GAAP. The standard also requires companies to disclose in the footnotes to the financial statements information about the amount, timing, and uncertainty for the payments made for the lease agreements. The standard is effective for financial statements issued for annual and interim periods beginning after December 15, 2018 on a retroactive basis. Early adoption is permitted.

In July 2018, the FASB issued ASU 2018-11, "Leases (Topic 842): Targeted Improvements", which offers practical expedient alternatives to the retroactive adoption of Accounting Standards Codification (“ASC”) 842. Specifically, the practical expedients allow companies to recognize right of use lease assets and lease liabilities at the date of adoption



only, rather than retrospectively for all periods presented, as well as practical expedients related to the presentation of lease components. The Company anticipates it will utilize the practical expedients under ASU 2018-11, and as a result, will reflect the adoption of ASC 842 in its condensed consolidated statement of financial position as of January 1, 2019, and will not retroactively reflect the provisions of ASC 842 in its 2017 and 2018 comparative statements of financial position.

In 2017, the Company established an implementation team to develop a plan to assess changes to processes and systems necessary to adopt the new standard. The implementation team has completed its technical assessment of assumptions and methods to be used in adopting the standard, and is currently working with a third party lease administrator in finalizing data extraction of lease information to a third party lease accounting system, with the expectation to complete data extraction procedures in late December 2018. The adoption of this new accounting standard is expected to have a material impact on the reporting of lease assets and lease liabilities on the condensed consolidated statements of financial position and is not expected to have a material impact on the condensed consolidated statements of financial position as a whole or on the results of operations or cash flows.

#### Stock Compensation

In May 2017, the FASB issued a new accounting standard that provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting related to changes to such awards. The updated guidance is effective for interim and annual periods beginning after December 15, 2017 and early adoption is permitted. The Company adopted this new standard as of January 1, 2018 as required, and since it does not have a history of modifying share-based payment awards, has determined that the updated requirements did not have an impact on its condensed consolidated financial statements for the periods presented.

#### Cash Flow Statement Classifications

In August 2016, the FASB issued a new accounting standard related to the classification of certain cash receipts and cash payments in the statement of cash flows. This standard is effective for financial statements issued for annual and interim periods beginning after December 15, 2017. The standard may be applied on a retrospective basis and early adoption is permitted. The Company adopted the new standard as of January 1, 2018 as required and has determined that its implementation did not have a material impact on its condensed consolidated statements of cash flows for the periods presented.

#### Goodwill Impairment

In January 2017, the FASB issued a new accounting standard that simplifies the accounting for goodwill impairments by eliminating step two from the goodwill impairment test. The standard requires that the impairment loss be measured as the excess of the reporting unit's carrying amount over its fair value. It eliminates the second step that requires the impairment to be measured between the implied value of a reporting unit's goodwill and its carrying value. The standard is effective for annual and any interim impairment tests for periods beginning after December 15, 2019 and early adoption is permitted. The Company is currently evaluating the effect of adopting this new accounting standard and has not yet determined the impact that its implementation will have on its condensed consolidated financial statements.

#### Definition of a Business

In January 2017, the FASB issued a new accounting standard that clarifies the definition of a business with the objective of adding guidance to assist companies with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The standard is effective for financial statements issued for annual and interim periods beginning after December 15, 2017 and may be applied on a retrospective basis with early adoption permitted. The Company adopted this new standard as of January 1, 2018 as required and determined that its implementation did not have a material impact on the Company's condensed consolidated financial statements for the periods presented.

#### Hedging Activities

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities", which is codified in ASC 815. The ASU is effective for financial statements issued for annual and interim periods beginning after December 15, 2018 and early adoption is permitted. This ASU makes a number of targeted amendments that will enable entities to more clearly portray the economics of their risk management activities in the financial statements and simplify the application of hedge accounting in certain

situations. The Company adopted ASU 2017-12 in August 2018 in anticipation of derivative swap arrangements which were entered into in the third quarter of 2018 and determined that its implementation did not have a material impact on the Company's condensed consolidated financial statements for the periods presented. See Notes 9 and 10 for additional information.

### 3. REVENUE RECOGNITION

Effective January 1, 2018, the Company adopted FASB ASU No. 2014-09, Revenue from Contracts with Customers (commonly referred to as “Topic 606”), which requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive. The Company adopted Topic 606 using the modified retrospective method and applied it to those contracts which were not completed as of the adoption date. The adoption of the new revenue standard did not have a material impact on the Company’s consolidated financial position, results of operations, or revenues as of the adoption date.

#### Revenue Recognition

Revenues are recognized when or as control of the promised goods or services transfers to the Company's customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

The transaction price for contracts may include forms of variable consideration, including reductions to the transaction price for volume discounts and rebates. To the extent a contract is deemed to have multiple performance obligations, the Company allocates the transaction price of the contract to each performance obligation using the standalone selling price of each distinct good or service in the contract.

#### Disaggregation of Revenue

In the following table, revenue from contracts with customers, net of intersegment sales, is disaggregated by market type and by reportable operating segments:

Third Quarter Ended September  
30, 2018

| (thousands)          | Manufacturing | Distribution | Total<br>Reportable<br>Operating<br>Segments |
|----------------------|---------------|--------------|--|
| Market type:         |               |              |  |
| Recreational Vehicle | \$262,936     | \$ 91,637    | \$ 354,573                                   |
| Manufactured Housing | 41,428        | 26,334       | 67,762                                       |
| Industrial           | 63,429        | 8,906        | 72,335                                       |
| Marine               | 77,421        | 3,048        | 80,469                                       |
| Total                | \$445,214     | \$ 129,925   | \$ 575,139                                   |

Nine Months Ended September 30,  
2018

| (thousands)          | Manufacturing | Distribution | Total<br>Reportable<br>Operating<br>Segments |
|----------------------|---------------|--------------|--|
| Market type:         |               |              |  |
| Recreational Vehicle | \$847,944     | \$ 280,082   | \$ 1,128,026                                 |
| Manufactured Housing | 124,406       | 75,946       | 200,352                                      |
| Industrial           | 186,890       | 25,701       | 212,591                                      |
| Marine               | 184,848       | 6,033        | 190,881                                      |
| Total                | \$1,344,088   | \$ 387,762   | \$ 1,731,850                                 |

#### Description of Products and Services

The Company is a major manufacturer of component products and a distributor of building products and materials serving original equipment manufacturers (“OEMs”). The following is a description of the principal activities, by reportable segments, from which the Company generates its revenue. See Note 14 for more detailed information about the Company’s reportable operating segments.

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### Manufacturing

The Company's Manufacturing segment revenue is primarily derived from the sale of laminated products that are utilized to produce furniture, shelving, walls, countertops, and cabinet products, cabinet doors, fiberglass bath fixtures and tile systems, hardwood furniture, vinyl printing, solid surface, granite, and quartz countertop fabrication, recreational vehicle painting, fabricated aluminum products, fiberglass and plastic components, softwoods lumber, custom cabinetry, polymer-based flooring, electrical systems components, and other products. Manufacturing segment revenue is recognized when control of the products transfers to the customer which is the point when the customer gains the ability to direct the use of and obtain substantially all of the remaining benefits from the asset, which is generally upon delivery of goods. In limited circumstances, where the products are customer specific with no alternative use to the Company and the Company has a legally enforceable right to payment for performance to date with a reasonable margin, revenue is recognized over the contract term based on the cost-to-cost method. The Company uses this measure of progress because it best depicts the transfer of value to the customer and correlates with the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods to the customer. However, revenue recognized based on the cost-to-cost method does not constitute a material amount of total Manufacturing segment revenue and consolidated net sales.

### Distribution

The Company's Distribution segment revenue is primarily derived from the resale of pre-finished wall and ceiling panels, drywall and drywall finishing products, appliances, electronics and audio systems components, wiring, electrical and plumbing products, fiber reinforced polyester products, cement siding, interior passage doors, roofing products, laminate and ceramic flooring, shower doors, furniture, fireplaces and surrounds, interior and exterior lighting products, and other miscellaneous products. The Company acts as a principal in such arrangements because it controls the promised goods before delivery to the customer. Distribution segment revenue from product sales is recognized on a gross basis upon delivery of goods at which point control transfers to the customer. The Distribution segment also generates revenue by providing marketing services for other manufacturers in exchange for agreed upon commissions. The commission revenue is recognized in the amount of expected commissions to be collected from the manufacturer upon delivery of goods to the customer. The overall commission business is not material to the Company's consolidated net sales.

### Significant Judgments and Practical Expedients Applied

Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods. Sales and other taxes collected concurrent with revenue-producing activities are excluded from revenue. Incidental items that are immaterial in the context of the contract are not recognized as separate performance obligations to which a portion of revenue would otherwise be allocated.

The Company records freight billed to customers in net sales. The corresponding costs incurred for shipping and handling related to these customer billed freight costs are recorded as costs to fulfill the contract and are included in warehouse and delivery expenses.

The Company's contracts across each of its businesses typically do not result in situations where there is a time period greater than one year between performance under the contract and collection of the related consideration. The Company elected the practical expedient under Topic 606 related to significant financing components, where the Company expects, at contract inception, that the period between the entity's transfer of a promised good or service to a customer and the customer's payment for that good or service will be one year or less.

The Company also applies the practical expedient in Topic 606 related to costs to obtain a contract and recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the incurred costs that the Company otherwise would have capitalized is one year or less. These costs are included in selling, general and administrative expenses.

### Contract Balances

The Company typically invoices the customer after shipment of the promised goods, at which time it has an unconditional right to payment. In limited circumstances, the Company may receive upfront payments from customers prior to satisfaction of a performance obligation in both the manufacturing and distribution businesses, in which case a contract liability is recorded. Contract liabilities are not material to the consolidated financial statements. The

following table provides information about contract balances:

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| (thousands)   | September 30, 2018 | At Adoption |
|---|--------------------|-------------|
| Receivables, which are included in trade receivables, net | \$ 126,613         | \$ 75,926   |
| Contract liabilities                                      | 2,523              | 1,310       |

Significant changes in the contract liabilities balance during the nine months ended September 30, 2018 are as follows:

| (thousands)   | Contract Liabilities |
|---|----------------------|
| Revenue recognized that was included in the contract liability balance at the beginning of the period | \$(1,165)            |
| Increases due to cash received, excluding amounts recognized as revenue during the period             | 2,190                |
| Accrued customer deposits related to business combinations  | 188                  |

#### Transaction Price Allocated to the Remaining Performance Obligation

The Company applies the practical expedient in paragraph 606-10-50-14 and does not disclose information about remaining performance obligations that have original expected durations of one year or less. The Company does not have material contracts that have original expected durations of more than one year.

#### 4. INVENTORIES

Inventories are stated at the lower of cost (First-In, First-Out (FIFO) Method) and net realizable value and consist of the following classes:

| (thousands)   | September 30, 2018 | December 31, 2017 |
|---|--------------------|-------------------|
| Raw materials   | \$ 128,897         | \$ 96,846         |
| Work in process   | 13,898             | 10,720            |
| Finished goods  | 24,439             | 22,936            |
| Less: reserve for inventory obsolescence                          | (4,014)            | (3,087)           |
| Total manufactured goods, net                                     | 163,220            | 127,415           |
| Materials purchased for resale (distribution products)            | 81,621             | 49,392            |
| Less: reserve for inventory obsolescence                          | (2,385)            | (1,537)           |
| Total materials purchased for resale (distribution products), net | 79,236             | 47,855            |
| Total inventories   | \$ 242,456         | \$ 175,270        |

#### 5. GOODWILL AND INTANGIBLE ASSETS

The Company acquired intangible assets in various acquisitions in 2017 and through the first nine months of 2018 that were determined to be business combinations. The goodwill recognized is expected to be deductible for income tax purposes for each of the 2018 and 2017 acquisitions with the exception of the acquisitions of Marine Accessories Corporation and Leisure Product Enterprises, LLC in 2018 and 2017, respectively. See Note 6 for further details. Goodwill and intangible assets are allocated to the Company's reporting units on the date they are initially recorded. Goodwill and indefinite-lived intangible assets are not amortized but are subject to an impairment test based on their estimated fair value performed annually in the fourth quarter (or under certain circumstances more frequently as warranted). Goodwill impairment testing is performed at the reporting unit level, one level below the business segment.

Finite-lived intangible assets that meet certain criteria continue to be amortized over their useful lives and are also subject to an impairment test based on estimated undiscounted cash flows when impairment indicators exist. The Company





assesses finite-lived intangible assets for impairment if events or changes in circumstances indicate that the carrying value may exceed the fair value.

No impairment was recognized during the first nine months ended September 30, 2018 and September 24, 2017 related to goodwill, indefinite-lived intangible assets or finite-lived intangible assets.

#### Goodwill

Changes in the carrying amount of goodwill for the nine months ended September 30, 2018 by segment are as follows:

| (thousands)  | Manufacturing | Distribution | Total      |
|--|---------------|--------------|------------|
| Balance - December 31, 2017                                    | \$ 179,471    | \$ 28,573    | \$ 208,044 |
| Acquisitions   | 40,144        | 13,017       | 53,161     |
| Adjustment to prior year preliminary purchase price allocation | (4,070 )      | 978          | (3,092 )   |
| Balance - September 30, 2018                                   | \$ 215,545    | \$ 42,568    | \$ 258,113 |

#### Intangible Assets

Intangible assets are comprised of customer relationships, non-compete agreements and trademarks. Customer relationships and non-compete agreements represent finite-lived intangible assets that have been recorded in the Manufacturing and Distribution segments along with related amortization expense. As of September 30, 2018, the remaining intangible assets balance of \$396.4 million is comprised of \$82.2 million of trademarks which have an indefinite life, and therefore, no amortization expense has been recorded, and \$314.2 million pertaining to customer relationships and non-compete agreements which are being amortized over periods ranging from three to 19 years.

For the finite-lived intangible assets attributable to the 2018 acquisitions, the useful life pertaining to non-compete agreements was three years for Aluminum Metals Company, LLC and five years for Metal Moulding Corporation, Indiana Marine Products, Collins & Company, Inc., Dehco, Inc., Dowco, Inc., Marine Accessories Corporation, and Engineered Metals and Composites, Inc. The useful life pertaining to customer relationships for all of the 2018 acquisitions is anticipated to be 10 years.

Amortization expense for the Company's intangible assets in the aggregate was \$25.1 million and \$14.2 million for the nine months ended September 30, 2018 and September 24, 2017, respectively.

Intangible assets, net consist of the following as of September 30, 2018 and December 31, 2017:

| (thousands)                    | September 30, 2018 | Weighted Average Useful Life (in years) | December 31, 2017 | Weighted Average Useful Life (in years) |
|--------------------------------|--------------------|---|-------------------|---|
| Customer relationships         | \$369,339          | 10.1                                    | \$239,053         | 10.2                                    |
| Non-compete agreements         | 21,566             | 4.7                                     | 15,564            | 4.2                                     |
| Trademarks                     | 82,250             | Indefinite                              | 60,448            | Indefinite                              |
|                                | 473,155            |   | 315,065           |   |
| Less: accumulated amortization | (76,738 )          |   | (51,598 )         |   |
| Intangible assets, net         | \$396,417          |   | \$263,467         |   |

Changes in the carrying value of intangible assets for the nine months ended September 30, 2018 by segment are as follows:

| (thousands)  | Manufacturing | Distribution | Total      |
|--|---------------|--------------|------------|
| Balance - December 31, 2017                                    | \$ 220,540    | \$ 42,927    | \$ 263,467 |
| Acquisitions   | 117,012       | 39,023       | 156,035    |
| Amortization   | (20,207 )     | (4,933 )     | (25,140 )  |
| Adjustment to prior year preliminary purchase price allocation | 2,070         | (15 )        | 2,055      |
| Balance - September 30, 2018                                   | \$ 319,415    | \$ 77,002    | \$ 396,417 |

## 6. ACQUISITIONS

### General

The Company completed eight acquisitions involving 12 companies in the first nine months of 2018 and seven acquisitions involving 13 companies in 2017, including four acquisitions involving six companies in the first nine months of 2017. Each of the acquisitions was funded through borrowings under the Company's credit facility in effect at the time of acquisition. Assets acquired and liabilities assumed in the individual acquisitions were recorded on the Company's condensed consolidated statements of financial position at their estimated fair values as of the respective dates of acquisition. In general, the acquisitions described below provided the opportunity for the Company to either establish a new presence in a particular market and/or expand its product offerings in an existing market and increase its market share and per unit content.

For each acquisition, the excess of the purchase consideration over the fair value of the net assets acquired was recorded as goodwill, which represents the value of leveraging the Company's existing purchasing, manufacturing, sales, and systems resources with the organizational talent and expertise of the acquired companies' respective management teams to maximize efficiencies, revenue impact, market share growth, and net income. The goodwill recognized is expected to be deductible for income tax purposes for each of the 2017 and 2018 acquisitions with the exception of Leisure Product Enterprises, LLC and Marine Accessories Corporation, for which goodwill is expected to be partially deductible for income tax purposes. Intangible asset values were estimated using income based valuation methodologies. See Note 5 for information regarding the amortization periods assigned to finite-lived intangible assets.

For the third quarter ended September 30, 2018, revenue and operating income of approximately \$82.4 million and \$8.8 million, respectively, were included in the Company's condensed consolidated statements of income relating to the 12 businesses acquired in the first nine months of 2018. The first nine months of 2018 included revenue and operating income of approximately \$160.0 million and \$17.3 million, respectively, related to these acquisitions. Acquisition-related costs in the aggregate associated with the businesses acquired in the first nine months of 2018 were immaterial.

For the third quarter ended September 24, 2017, revenue and operating income of approximately \$29.3 million and \$4.0 million was included in the Company's condensed consolidated statements of income relating to the six businesses acquired in the first nine months of 2017. The first nine months of 2017 included revenue and operating income of approximately \$47.7 million and \$6.0 million, respectively, related to these acquisitions. Acquisition-related costs in the aggregate associated with the businesses acquired in the first nine months of 2017 were immaterial.

### Contingent Consideration

In connection with certain 2018 and 2017 acquisitions as noted below, if certain financial targets for the acquired businesses are achieved, the Company will be required to pay additional cash consideration. The Company has recorded a liability for the fair value of the contingent consideration related to each of these acquisitions as part of the initial purchase price based on the present value of the expected future cash flows and the probability of future

payments. As required, the liability for the contingent consideration associated with each of these acquisitions will be measured quarterly at fair value and the Company could record adjustments in future periods.

The aggregate fair value of the estimated contingent consideration payments was \$15.8 million, \$3.9 million of which is included in the line item "Accrued liabilities" and \$11.9 million is included in "Other long-term liabilities" on the condensed consolidated statement of financial position as of September 30, 2018. The liability for contingent consideration

expires at various dates through December 2023. The contingent consideration arrangements are subject to a maximum payment amount of up to \$22.0 million in the aggregate.

## 2018 Acquisitions

### Metal Moulding Corporation (“MMC”)

In February 2018, the Company completed the acquisition of the business and certain assets of Madison, Tennessee-based MMC, a manufacturer of custom metal fabricated products, primarily for the marine market, including hinges, arm rests, brackets, panels and trim, as well as plastic products including boxes, inlay tables, steps, and related components, for a net initial purchase price of \$19.9 million, plus subsequent contingent consideration over a one-year period based on future performance. The Company recorded a preliminary fair value estimate of the contingent consideration of \$1.4 million, which is included in the line item “Accrued liabilities” on the condensed consolidated statement of financial position as of September 30, 2018.

The results of operations for MMC are included in the Company’s condensed consolidated financial statements and the Manufacturing operating segment from the date of acquisition. The preliminary purchase price allocation is subject to final review and approval, and thus all required purchase accounting adjustments are subject to change within the measurement period as the Company finalizes its fair value estimates.

### Aluminum Metals Company, LLC (“AMC”)

In February 2018, the Company completed the acquisition of the business and certain assets of Elkhart, Indiana-based AMC, a manufacturer of aluminum products including coil, fabricated sheets and extrusions, in addition to roofing products, primarily for the recreational vehicle (“RV”), industrial, and marine markets, for a net purchase price of \$17.8 million.

The results of operations for AMC are included in the Company’s condensed consolidated financial statements and the Manufacturing operating segment from the date of acquisition. The preliminary purchase price allocation is subject to final review and approval, and thus all required purchase accounting adjustments are subject to change within the measurement period as the Company finalizes its fair value estimates.

### IMP Holdings, LLC d/b/a Indiana Marine Products (“IMP”)

In March 2018, the Company completed the acquisition of the business and certain assets of Angola, Indiana-based IMP, a manufacturer of fully-assembled helm assemblies, including electrical wiring harnesses, dash panels, instrumentation and gauges, and other products primarily for the marine market, for a net initial purchase price of \$18.6 million, plus subsequent contingent consideration payments over a three-year period based on future performance. The Company recorded a preliminary fair value estimate of the contingent consideration of \$7.9 million, which is included in the line item “Other long-term liabilities” on the condensed consolidated statement of financial position as of September 30, 2018.

The results of operations for IMP are included in the Company’s condensed consolidated financial statements and the Manufacturing operating segment from the date of acquisition. The preliminary purchase price allocation is subject to final review and approval, and thus all required purchase accounting adjustments are subject to change within the measurement period as the Company finalizes its fair value estimates.

### Collins & Company, Inc. (“Collins”)

In March 2018, the Company completed the acquisition of the business and certain assets of Bristol, Indiana-based Collins, a distributor of appliances, trim products, fuel systems, flooring, tile, and other related building materials primarily to the RV market as well as the housing and industrial markets, for a net purchase price of \$40.0 million. The results of operations for Collins are included in the Company’s condensed consolidated financial statements and the Distribution operating segment from the date of acquisition. The preliminary purchase price allocation is subject to final review and approval, and thus all required purchase accounting adjustments are subject to change within the measurement period as the Company finalizes its fair value estimates.

Dehco, Inc. (“Dehco”)

In April 2018, the Company completed the acquisition of Dehco, a distributor and manufacturer of flooring, kitchen and bath products, adhesives and sealants, electronics, appliances and accessories, LP tanks, and other related building materials, primarily for the RV market as well as the manufactured housing (“MH”), marine and other industrial markets, for a net purchase price of \$52.8 million. Dehco has operating facilities in Indiana, Oregon, Pennsylvania and Alabama.

The results of operations for Dehco are included in the Company’s condensed consolidated financial statements and the Manufacturing and Distribution operating segments from the date of acquisition. The preliminary purchase price allocation is subject to final review and approval, and thus all required purchase accounting adjustments are subject to change within the measurement period as the Company finalizes its fair value estimates.

Dowco, Inc. (“Dowco”)

In May 2018, the Company completed the acquisition of Dowco, a designer and manufacturer of custom designed boat covers and bimini tops, full boat enclosures, mounting hardware, and other accessories and components for the marine market, for a net purchase price of \$56.9 million. Dowco has operating facilities in Wisconsin, Missouri, Indiana, and Minnesota.

The results of operations for Dowco are included in the Company’s condensed consolidated financial statements and the Manufacturing operating segment from the date of acquisition. The preliminary purchase price allocation is subject to final review and approval, and thus all required purchase accounting adjustments are subject to change within the measurement period as the Company finalizes its fair value estimates.

Marine Accessories Corporation (“MAC”)

In June 2018, the Company completed the acquisition of Maryville, Tennessee-based MAC, a manufacturer, distributor and aftermarket supplier of custom tower and canvas products and other related accessories to OEMs, dealers, retailers and distributors within the marine market, as well as direct to consumers, for a net purchase price of \$58.2 million.

The results of operations for MAC are included in the Company’s condensed consolidated financial statements and the Manufacturing and Distribution operating segments from the date of acquisition. The preliminary purchase price allocation is subject to final review and approval, and thus all required purchase accounting adjustments are subject to change within the measurement period as the Company finalizes its fair value estimates.

Engineered Metals and Composites, Inc. (“EMC”)

In September 2018, the Company completed the acquisition of West Columbia, South Carolina-based EMC, a designer and manufacturer of custom marine towers, frames, and other fabricated component products for OEMs in the marine industry, for a net initial purchase price of \$25.9 million, plus subsequent contingent consideration over a three-month period based on future performance. The Company recorded a preliminary fair value estimate of the contingent consideration of \$2.5 million, which is included in the line item “Accrued liabilities” on the condensed consolidated statement of financial position as of September 30, 2018.

The results of operations for EMC are included in the Company’s condensed consolidated financial statements and the Manufacturing operating segment from the date of acquisition. The preliminary purchase price allocation is subject to final review and approval, and thus all required purchase accounting adjustments are subject to change within the measurement period as the Company finalizes its fair value estimates.

2017 Acquisitions

Medallion Plastics, Inc. (“Medallion”)

In March 2017, the Company acquired the business and certain assets of Elkhart, Indiana-based Medallion, a designer, engineer and manufacturer of custom thermoformed products and components which include dash and trim panels and fender skirts for the RV market, and complete interior packages, bumper covers, hoods, and trims for the automotive, specialty transportation and other industrial markets, for a net purchase price of \$9.9 million.

The results of operations for Medallion are included in the Company’s condensed consolidated financial statements and the Manufacturing operating segment from the date of acquisition.



Leisure Product Enterprises, LLC (“LPE”)

In April 2017, the Company acquired 100% of the membership interests of LPE for a net purchase price of \$73.3 million. LPE is comprised of three complementary manufacturing companies primarily serving the marine and industrial markets: Marine Electrical Products, located in Lebanon, Missouri, supplies marine OEMs with fully-assembled boat dash and helm assemblies, including electrical wire harnesses as well as custom parts and assemblies for the industrial, commercial, and off-road vehicle markets; Florida Marine Tanks, located in Henderson, North Carolina, supplies aluminum fuel and holding tanks for marine and industrial customers; and Marine Concepts/Design Concepts, with facilities located in Sarasota, Florida and Cape Coral, Florida, designs, engineers and manufactures CNC plugs, open and closed composite molds, and CNC molds for fiberglass boat manufacturers.

The results of operations for LPE are included in the Company’s condensed consolidated financial statements and the Manufacturing operating segment from the date of acquisition. The purchase price allocation and all required purchase accounting adjustments were finalized in the first quarter of 2018, and resulted in changes from previously reported estimated amounts as of December 31, 2017 that include a \$0.6 million decrease to goodwill and \$0.9 million increase to intangible assets, the net of which was offset by a \$0.3 million increase to the deferred tax liability. There was no material impact to the condensed consolidated statement of income related to these changes in the first quarter of 2018.

Indiana Technologies, Inc. d/b/a Wire Design (“Wire Design”)

In July 2017, the Company acquired the business and certain assets of Elkhart, Indiana-based Wire Design, a manufacturer of wire harnesses for the RV, marine and industrial markets, for a net purchase price of \$10.8 million.

The results of operations for Wire Design are included in the Company’s condensed consolidated financial statements and the Manufacturing operating segment from the date of acquisition. The purchase price allocation and all required purchase accounting adjustments were finalized in the first quarter of 2018, and resulted in changes from previously reported estimated amounts as of December 31, 2017 that include a \$0.2 million decrease to goodwill with a corresponding \$0.2 million increase to intangible assets. There was no material impact to the condensed consolidated statement of income related to these changes in the first quarter of 2018.

Baymont, Inc. (“Baymont”)

In September 2017, the Company acquired the business and certain assets of Baymont, a manufacturer and supplier of fiberglass showers, tubs, and tile systems for the MH and industrial markets, with operating facilities located in Golden, Mississippi and Belmont, Mississippi. The net purchase price was \$3.8 million, plus subsequent contingent consideration payments over a six-year period based on future performance. The Company recorded a preliminary fair value estimate of the contingent consideration of \$5.1 million at the date of acquisition, which was included in the line item “Other long-term liabilities” on the condensed consolidated statement of financial position as of December 31, 2017. In the first nine months of 2018, the fair value estimate of the contingent consideration was decreased by \$1.1 million to \$4.0 million, with a corresponding \$1.1 million decrease to goodwill.

The results of operations for Baymont are included in the Company’s condensed consolidated financial statements and the Manufacturing operating segment from the date of acquisition. The purchase price allocation and all required purchase accounting adjustments were finalized in the third quarter of 2018. Changes from previously reported estimated amounts as of December 31, 2017 include a \$0.3 million increase to property, plant and equipment, net, a \$0.9 million increase to other intangible assets, and a \$1.7 million decrease to goodwill. There was no material impact to the condensed consolidated statement of income related to these changes in the third quarter of 2018.

Indiana Transport, Inc. (“Indiana Transport”)

In November 2017, the Company acquired the business and certain assets of Elkhart, Indiana-based Indiana Transport, a transportation and logistics service provider primarily to OEMs and dealers in the RV market, for a net purchase price of \$58.8 million.



The results of operations for Indiana Transport are included in the Company's condensed consolidated financial statements and the Distribution operating segment from the date of acquisition. The preliminary purchase price allocation is subject to final review and approval, and thus all required purchase accounting adjustments are subject to change within the measurement period as the Company finalizes its fair value estimates. In the first nine months of 2018, changes from previously reported estimated amounts as of December 31, 2017 include a \$1.0 million decrease to property, plant and

equipment, net, with a corresponding \$1.0 million increase to goodwill, and a \$0.6 million increase to accounts payable and accrued liabilities.

LMI, Inc. and Related Companies (collectively, "LMI")

In November 2017, the Company acquired LMI, a designer, fabricator, and installer of specialty glass, mirror, bath and closet building products to residential housing and commercial high-rise builders, general contractors, retailers, and RV manufacturers in the U.S., for a net purchase price of \$80.9 million. LMI is headquartered in Ontario, California and operates six manufacturing and distribution centers in California and Nevada and an additional manufacturing facility in China.

The results of operations for LMI are included in the Company's condensed consolidated financial statements and the Manufacturing operating segment from the date of acquisition. The preliminary purchase price allocation is subject to final review and approval, and thus all required purchase accounting adjustments are subject to change within the measurement period as the Company finalizes its fair value estimates. In the first nine months of 2018, changes from previously reported estimated amounts as of December 31, 2017 include a \$2.0 million increase to property, plant and equipment, net, and a \$0.6 million decrease to goodwill.

Nickell Moulding Company, Inc. ("Nickell")

In December 2017, the Company acquired the business and certain assets of Elkhart, Indiana-based Nickell, a manufacturer of hardwood and wrapped mouldings and trim, custom wood frames, and door components for the RV, retail and hospitality, MH, and other markets, for a net purchase price of \$12.6 million.

The results of operations for Nickell are included in the Company's condensed consolidated financial statements and the Manufacturing operating segment from the date of acquisition. The preliminary purchase price allocation is subject to final review and approval, and thus all required purchase accounting adjustments are subject to change within the measurement period as the Company finalizes its fair value estimates. In the first nine months of 2018, changes from previously reported estimated amounts as of December 31, 2017 include a \$0.2 million decrease to trade receivables, a \$0.8 million decrease to goodwill, a \$0.4 million increase to inventories, a \$0.3 million increase to property, plant and equipment, net, and a \$0.6 million decrease to accounts payable and accrued liabilities.

The following table summarizes the fair values of the assets acquired and the liabilities assumed as of the date of the acquisition. The purchase price allocation in each acquisition is final except as noted in the discussions above:

| (thousands)       | Trade receivables | Inventories | Property, plant and equipment | Prepaid expenses & other | Intangible assets | Goodwill  | Less:                           |                        | Total net assets acquired |
|-------------------|-------------------|-------------|-------------------------------|--------------------------|-------------------|-----------|---------------------------------|------------------------|---------------------------|
|                   |                   |             |                               |                          |                   |           | payable and accrued liabilities | Deferred tax liability |                           |
| 2018              |                   |             |                               |                          |                   |           |                                 |                        |                           |
| MMC (1)           | \$ 1,474          | \$ 2,324    | \$ 3,000                      | \$ —                     | \$ 10,626         | \$ 4,647  | \$ 818                          | \$ —                   | \$ 21,253                 |
| AMC               | 3,966             | 5,631       | 4,000                         | 39                       | 5,350             | 1,243     | 2,462                           | —                      | 17,767                    |
| IMP (2)           | 1,962             | 4,286       | 1,306                         | 13                       | 17,997            | 3,821     | 2,886                           | —                      | 26,499                    |
| Collins           | 2,854             | 9,922       | 1,125                         | 5                        | 22,000            | 6,662     | 2,561                           | —                      | 40,007                    |
| Dehco             | 4,727             | 18,416      | 14,175                        | 356                      | 14,200            | 4,100     | 3,194                           | —                      | 52,780                    |
| Dowco             | 4,136             | 4,498       | 5,910                         | 1,869                    | 34,379            | 10,340    | 4,198                           | —                      | 56,934                    |
| MAC               | 3,081             | 6,867       | 8,000                         | 1,558                    | 32,733            | 18,448    | 4,109                           | 8,373                  | 58,205                    |
| EMC (3)           | 600               | 2,018       | 3,500                         | —                        | 18,750            | 3,900     | 387                             | —                      | 28,381                    |
| 2018 Totals       | \$ 22,800         | \$ 53,962   | \$ 41,016                     | \$ 3,840                 | \$ 156,035        | \$ 53,161 | \$ 20,615                       | \$ 8,373               | \$ 301,826                |
| 2017              |                   |             |                               |                          |                   |           |                                 |                        |                           |
| Medallion         | \$ 2,233          | \$ 2,605    | \$ 1,713                      | \$ 118                   | \$ 3,100          | \$ 1,342  | \$ 1,200                        | \$ —                   | \$ 9,911                  |
| LPE               | 5,848             | 5,162       | 9,225                         | 337                      | 33,275            | 39,945    | 6,358                           | 14,140                 | 73,294                    |
| Wire Design       | 615               | 437         | 555                           | 21                       | 5,590             | 4,052     | 491                             | —                      | 10,779                    |
| Baymont (4)       | —                 | 1,174       | 2,067                         | —                        | 3,166             | 1,502     | 69                              | —                      | 7,840                     |
| Indiana Transport | 6,379             | —           | 2,594                         | 1,309                    | 31,375            | 20,250    | 3,117                           | —                      | 58,790                    |
| LMI               | 11,222            | 9,086       | 6,028                         | 994                      | 36,110            | 25,910    | 8,472                           | —                      | 80,878                    |
| Nickell           | 1,762             | 1,550       | 1,240                         | —                        | 6,179             | 2,421     | 556                             | —                      | 12,596                    |
| Other             | —                 | 250         | 2,668                         | —                        | —                 | 668       | 124                             | —                      | 3,462                     |
| 2017 Totals       | \$ 28,059         | \$ 20,264   | \$ 26,090                     | \$ 2,779                 | \$ 118,795        | \$ 96,090 | \$ 20,387                       | \$ 14,140              | \$ 257,550                |

(1) Total net assets acquired for MMC reflect the preliminary estimated liability of \$1.4 million pertaining to the fair value of the contingent consideration based on future performance. The actual net cash paid for the MMC acquisition of \$19.9 million is included in “Cash Flows from Investing Activities - Business Acquisitions” on the condensed consolidated statement of cash flows for the nine months ended September 30, 2018.

(2) Total net assets acquired for IMP reflect the preliminary estimated liability of \$7.9 million pertaining to the fair value of the contingent consideration based on future performance. The actual net cash paid for the IMP acquisition of \$18.6 million is included in “Cash Flows from Investing Activities - Business Acquisitions” on the condensed consolidated statement of cash flows for the nine months ended September 30, 2018.

(3) Total net assets acquired for EMC reflect the preliminary estimated liability of \$2.5 million pertaining to the fair value of the contingent consideration based on future performance. The actual net cash paid for the EMC acquisition of \$25.9 million is included in “Cash Flows from Investing Activities - Business Acquisitions” on the condensed consolidated statement of cash flows for the nine months ended September 30, 2018.

(4) Total net assets acquired for Baymont reflect the preliminary estimated liability of \$4.0 million pertaining to the fair value of the contingent consideration based on future performance. The actual net cash paid for the Baymont acquisition of \$3.8 million is included in “Cash Flows from Investing Activities - Business Acquisitions” on the consolidated statement of cash flows for the year ended December 31, 2017.

#### Pro Forma Information

The following pro forma information for the third quarter and nine months ended September 30, 2018 and September 24, 2017 assumes the MMC, AMC, IMP, Collins, Dehco, Dowco, MAC, and EMC acquisitions (which were acquired in 2018) and the Medallion, LPE, Wire Design, Baymont, Indiana Transport, LMI, and Nickell acquisitions (which were acquired in 2017) occurred as of the beginning of the year immediately preceding each such

acquisition. The pro forma information contains the actual operating results of the 2018 and 2017 acquisitions combined with the results prior to their respective acquisition dates, adjusted to reflect the pro forma impact of the acquisitions occurring as of the beginning of the year immediately preceding each such acquisition.

The pro forma information includes financing and interest expense charges based on the actual incremental borrowings incurred in connection with each transaction as if it occurred as of the beginning of the year immediately preceding each such acquisition. In addition, the pro forma information includes amortization expense, in the aggregate, related to intangible assets acquired in connection with the transactions of \$0.4 million and \$5.4 million for the third quarter and nine months ended September 30, 2018, respectively, and \$5.2 million and \$18.1 million for the third quarter and nine months ended September 24, 2017, respectively.

| (thousands except per share data)   | Third Quarter Ended |                    | Nine Months Ended  |                    |
|-------------------------------------|---------------------|--------------------|--------------------|--------------------|
|                                     | September 30, 2018  | September 24, 2017 | September 30, 2018 | September 24, 2017 |
| Revenue                             | \$579,432           | \$ 544,709         | \$1,846,631        | \$1,591,758        |
| Net income                          | 28,393              | 23,134             | 99,652             | 75,832             |
| Basic net income per common share   | 1.19                | 0.94               | 4.10               | 3.16               |
| Diluted net income per common share | 1.17                | 0.92               | 4.05               | 3.11               |

The pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisitions been consummated as of that time, nor is it intended to be a projection of future results.

## 7. STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation in accordance with fair value recognition provisions. The Company recorded compensation expense of \$3.5 million and \$2.6 million for the third quarters ended September 30, 2018 and September 24, 2017, respectively, for its stock-based compensation plans on the condensed consolidated statements of income. For the first nine months of 2018 and 2017, the Company recorded \$10.9 million and \$7.8 million, respectively.

The Company estimates the fair value of (i) all stock grants as of the grant date using the closing price per share of the Company's common stock on such date, and (ii) all stock option and stock appreciation rights awards as of the grant date by applying the Black-Scholes option pricing model.

For full year 2017, the Board of Directors (the "Board") approved various share grants under the Company's 2009 Omnibus Incentive Plan (the "Plan") totaling 233,654 shares in the aggregate, of which grants of 167,504 shares were approved in the first nine months of 2017. On January 17, 2017, the Board approved the grant of 340,110 stock options and the grant of 340,128 stock appreciation rights.

The Board approved various share grants under the Plan in the first nine months of 2018 totaling 181,808 shares in the aggregate.

As of September 30, 2018, there was approximately \$24.2 million of total unrecognized compensation cost related to stock-based compensation arrangements granted under incentive plans. That cost is expected to be recognized over a weighted-average period of 21.1 months.

## 8. NET INCOME PER COMMON SHARE

Basic net income per common share is computed by dividing net income by the weighted-average number of common shares outstanding. Diluted net income per common share is computed by dividing net income by the weighted-average number of common shares outstanding, plus the dilutive effect of stock options, stock appreciation rights, and restricted stock units (collectively "Common Stock Equivalents"). The dilutive effect of Common Stock Equivalents is calculated under the treasury stock method using the average market price for the period. Certain

Common Stock Equivalents were not included in the computation of diluted net income per common share because the exercise prices of those Common Stock Equivalents were greater than the average market price of the common shares.

Income per common share is calculated for the third quarter and nine months periods as follows:

| (thousands except per share data)                      | Third Quarter Ended |                    | Nine Months Ended  |                    |
|--|---------------------|--------------------|--------------------|--------------------|
|  | September 30, 2018  | September 24, 2017 | September 30, 2018 | September 24, 2017 |
| Net income for basic and diluted per share calculation | \$27,934            | \$ 17,945          | \$92,862           | \$ 56,672          |
| Weighted average common shares outstanding - basic     | 23,894              | 24,663             | 24,279             | 24,066             |
| Effect of potentially dilutive securities              | 338                 | 369                | 340                | 410                |
| Weighted average common shares outstanding - diluted   | 24,232              | 25,032             | 24,619             | 24,476             |
| Basic net income per common share                      | \$1.17              | \$ 0.73            | \$3.82             | \$ 2.35            |
| Diluted net income per common share                    | \$1.15              | \$ 0.72            | \$3.77             | \$ 2.32            |

## 9. DEBT

A summary of total debt outstanding at September 30, 2018 and December 31, 2017 is as follows:

| (thousands)   | September 30, 2018 | December 31, 2017 |
|---|--------------------|-------------------|
| Long-term debt:   |                    |                   |
| Revolver  | \$ 364,000         | \$287,397         |
| Term Loan   | 97,500             | 66,960            |
| Convertible Notes                                       | 172,500            | —                 |
| Total long-term debt                                    | 634,000            | 354,357           |
| Less: Convertible Notes debt discount                   | (31,699)           | ) —               |
| Less: current maturities of long-term debt              | (7,500)            | ) (15,766 )       |
| Less: net deferred financing costs related to Term Loan | (467)              | ) (480 )          |
| Total long-term debt, less current maturities, net      | \$ 594,334         | \$ 338,111        |

### 2015 Credit Facility

Prior to June 5, 2018, the Company's credit facility was established under its credit agreement, dated April 28, 2015, with Wells Fargo Bank, National Association ("Wells Fargo"), as Administrative Agent and a lender, and the lenders party thereto, as amended (the "2015 Credit Agreement"). The 2015 Credit Agreement consisted of a \$417.3 million revolving credit loan (the "2015 Revolver") and up to an \$82.7 million term loan (the "2015 Term Loan" and, together with the Revolver, the "2015 Credit Facility"). The 2015 Credit Facility had a maturity date of March 17, 2022 and was replaced by the 2018 Credit Facility (as defined herein).

### 2018 Credit Facility

The Company entered into a Second Amended and Restated Credit Agreement, dated as of June 5, 2018, (the "2018 Credit Agreement") by and among the Company, the Lenders party thereto, and Wells Fargo, as Administrative Agent. The 2018 Credit Agreement amended and restated the Company's 2015 Credit Agreement.

The 2018 Credit Facility is comprised of an \$800 million revolving credit loan (the "2018 Revolver") and a \$100 million term loan (the "2018 Term Loan" and, together with the 2018 Revolver, the "2018 Credit Facility"). The March 17, 2022 maturity date for borrowings under the 2018 Credit Agreement remained unchanged from the 2015 Credit Agreement.

The 2018 Credit Agreement continues to be secured by substantially all personal property assets of the Company and any domestic subsidiary guarantors. The 2018 Credit Agreement includes certain definitions, terms and reporting requirements and includes the following additional provisions:





The 2018 Term Loan will be repaid in consecutive quarterly installments on the last business day of each of March, June, September and December in the following amounts: (i) beginning June 30, 2018, through and including March 31, 2019, \$1,250,000, (ii) beginning June 30, 2019, through and including March 31, 2021, \$2,500,000, and (iii) beginning June 30, 2021, and each quarter thereafter, \$3,750,000, with the remaining balance due at maturity; The interest rates for borrowings under the 2018 Revolver and the 2018 Term Loan are the Base Rate plus the Applicable Margin or LIBOR plus the Applicable Margin, with a fee payable by the Company on unused but committed portions of the Revolver;

The 2018 Revolver includes a sub-limit up to \$10.0 million for same day advances (“Swing Line”) which shall bear interest based upon the Base Rate plus the Applicable Margin;

Up to \$10.0 million of the 2018 Revolver is available as a sub facility for the issuance of standby letters of credit, which are subject to certain expiration dates;

The financial covenants include requirements as to a consolidated total leverage ratio and a consolidated fixed charge coverage ratio, and other covenants include limitations and restrictions concerning permitted acquisitions, investments, sales of assets, liens on assets, dividends and other payments; and

Customary prepayment provisions, representations, warranties and covenants, and events of default.

At September 30, 2018, the Company had \$97.5 million outstanding under the 2018 Term Loan under the LIBOR-based option, and borrowings outstanding under the 2018 Revolver of: (i) \$348.0 million under the LIBOR-based option and (ii) \$16.0 million under the Base Rate-based option. The interest rate for borrowings at September 30, 2018 was the Prime Rate plus 1.00% (or 6.25%), or LIBOR plus 2.00% (or 4.26%). At December 31, 2017, the Company had \$67.0 million outstanding under the 2015 Term Loan under the LIBOR-based option, and borrowings outstanding under the 2015 Revolver of: (i) \$281.0 million under the LIBOR-based option and (ii) \$6.4 million under the Base Rate-based option. The interest rate for borrowings at December 31, 2017 was the Prime Rate plus 0.50% (or 5.00%), or LIBOR plus 1.50% (or 3.1250%). The fee payable on committed but unused portions of the 2018 Revolver and the 2015 Revolver, respectively, was 0.25% at September 30, 2018 and 0.20% December 31, 2017.

Pursuant to the 2018 Credit Agreement, the financial covenants include: (a) a required maximum consolidated total leverage ratio, measured on a quarter-end basis, not to exceed 3.00:1.00 for the 12-month period ending on such quarter-end; and (b) a required minimum consolidated fixed charge coverage ratio, measured on a quarter-end basis, of at least 1.50:1.00 for the 12-month period ending on such quarter-end.

The consolidated total leverage ratio is the ratio for any period of consolidated total indebtedness (as measured as of the second day following the end of the immediately preceding fiscal quarter) to consolidated adjusted earnings before interest, taxes, depreciation and amortization (“EBITDA”). Consolidated total indebtedness for any period is the sum of: (i) total debt outstanding under the 2018 Revolver, the 2018 Term Loan and the Convertible Notes (as defined herein); (ii) capital leases and letters of credit outstanding; and (iii) deferred payment obligations. The consolidated fixed charge coverage ratio for any period is the ratio of consolidated EBITDA less restricted payments, taxes paid and capital expenditures as defined under the 2018 Credit Agreement to consolidated fixed charges. Consolidated fixed charges for any period is the sum of cash interest expense related to the 2018 Term Loan, 2018 Revolver and the Convertibles Notes, and scheduled principal payments on outstanding indebtedness under the 2018 Term Loan.

As of and for the September 30, 2018 reporting date, the Company was in compliance with both of these financial debt covenants as required under the terms of the 2018 Credit Agreement. The required maximum consolidated total leverage ratio and the required minimum consolidated fixed charge coverage ratio compared to the actual amounts as of September 30, 2018 and for the fiscal period then ended are as follows:

|  | Required | Actual |
|--|----------|--------|
| Consolidated total leverage ratio (12-month period)        | 3.00     | 2.26   |
| Consolidated fixed charge coverage ratio (12-month period) | 1.50     | 3.51   |

Total cash interest paid for the third quarter and first nine months of 2018 was \$6.6 million and \$12.2 million, respectively. For the comparable 2017 periods, cash interest paid was \$2.3 million and \$5.8 million, respectively.

## Interest Rate Swaps

In the third quarter of 2018, the Company entered into \$200.0 million notional amount of variable to fixed interest rate swaps to hedge risks associated with the variable LIBOR component of the 2018 Credit Facility. These interest rate swaps fix the LIBOR component of interest expense on \$200.0 million of the debt outstanding under the 2018 Credit Facility at an average interest rate of 2.91%, with an all-in average rate of 4.91% with the current applicable margin, discussed above. See Note 10 for further details.

## Convertible Senior Notes

In January 2018, the Company issued \$172.5 million aggregate principal amount of 1.00% Convertible Senior Notes due 2023 (the “Convertible Notes”). The total debt discount at closing of \$36.0 million represented (1) the difference between the principal amount of the Convertible Notes upon issuance less the present value of the future cash flows of the Convertible Notes or \$31.9 million plus (2) the debt discount portion of the issuance costs of \$4.1 million. The unamortized portion of the total debt discount is being amortized to interest expense over the life of the Convertible Notes beginning in the first quarter of 2018. The unamortized portion of the debt discount as of September 30, 2018 was \$31.7 million.

The net proceeds from the issuance of the Convertible Notes were approximately \$167.5 million, after deducting the initial purchasers’ discounts and commissions and offering expenses payable by the Company, but before deducting the net cost of the Convertible Note Hedge Transactions and the Warrant Transactions (each as defined herein) described in Note 10. The Convertible Notes are senior unsecured obligations of the Company and pay interest semi-annually in arrears on February 1 and August 1 of each year at an annual rate of 1.00% beginning August 1, 2018. The Convertible Notes will mature on February 1, 2023 unless earlier repurchased or converted in accordance with their terms. The Convertible Notes are convertible by the noteholders, in certain circumstances and subject to certain conditions, into cash, shares of common stock of the Company, or a combination thereof, at the Company’s election. The initial conversion rate for the Convertible Notes is 11.3785 shares of the Company’s common stock per \$1,000 principal amount of the Convertible Notes (or 1,962,790 shares in the aggregate) and is equal to an initial conversion price of approximately \$87.89 per share. If an event of default on the Convertible Notes occurs, the principal amount of the Convertible Notes, plus accrued and unpaid interest (including additional interest, if any) may be declared immediately due and payable, subject to certain conditions. The net proceeds were used to pay the net cost of the Convertible Hedge Transactions and the Warrant Transactions and to reduce borrowings under the 2015 Revolver.

## 10. DERIVATIVE FINANCIAL INSTRUMENTS

### Convertible Note Hedge Transactions and Warrant Transactions

In January 2018, in connection with the Convertible Notes offering, the Company entered into privately negotiated convertible note hedge transactions (together, the “Convertible Note Hedge Transactions”) with each of Bank of America, N.A. and Wells Fargo Bank, National Association (together, the “Hedge Counterparties”). Pursuant to the Convertible Note Hedge Transactions, the Company acquired options to purchase the same number of shares of the Company’s common stock (or 1,962,790 shares) initially underlying the Convertibles Notes at an initial strike price equal to the initial strike price of the Convertible Notes of approximately \$87.89 per share, subject to customary anti-dilution adjustments. The options expire on February 1, 2023, subject to earlier exercise.

At the same time, the Company also entered into separate, privately negotiated warrant transactions (the “Warrant Transactions”) with each of the Hedge Counterparties, pursuant to which the Company sold warrants to purchase the same number of shares of the Company’s common stock (or 1,962,790 shares) underlying the Convertible Notes, at an initial strike price of approximately \$113.93 per share, subject to customary anti-dilution adjustments. The warrants have a final expiration date of September 20, 2023.

The Company paid \$31.5 million associated with the cost of the Convertible Note Hedge Transactions and received proceeds of \$18.1 million related to the Warrant Transactions. The Convertible Note Hedge Transactions are expected generally to reduce potential dilution to the Company’s common stock upon any conversion of the Convertible Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of converted Convertible



Notes. However, the Warrant Transactions, could separately have a dilutive effect on the Company's common stock to the extent that the market price per share of the common stock exceeds the strike price of the warrants.

#### Interest Rate Swaps

The 2018 Credit Facility exposes the Company to risk associated with the variability in interest expense associated with fluctuations in LIBOR. To partially mitigate this risk, the Company entered into interest rate swaps on a portion of its 2018 Credit Facility. As of September 30, 2018, the Company had a combined notional principal amount of \$200.0 million of variable to fixed interest rate swap agreements, all of which were designated as cash flow hedges. These swap agreements effectively convert the interest expense associated with a portion of the 2018 Credit Facility from variable interest rates to fixed interest rates and have termination dates that correspond to the interest payment dates of the 2018 Credit Facility.

#### Fair Value of Derivative Contracts

The following table summarizes the fair value of derivative contracts included in the accompanying condensed consolidated balance sheet (in thousands):

|   | Fair value of derivative assets |                    |                   | Fair value of derivative liabilities |                    |                   |
|---|---------------------------------|--------------------|-------------------|--------------------------------------|--------------------|-------------------|
|   | Balance sheet location          | September 30, 2018 | December 31, 2017 | Balance sheet location               | September 30, 2018 | December 31, 2017 |
| Derivatives accounted for as cash flow hedges |                                 |                    |                   |                                      |                    |                   |
| Interest rate swap agreements                 | Other non-current assets        | \$ 194             | \$ —              | Other long-term liabilities          | \$ 86              | \$ —              |

The interest rate swaps are comprised of over-the-counter derivatives, which are valued using models that primarily rely on observable inputs such as yield curves, and are classified as Level 2 in the fair value hierarchy.

#### AOCI Recognition

The following table presents the amount of gains and losses that have been recognized in accumulated other comprehensive ("AOCI") from changes in the unrealized gain on the interest rate swaps, net of tax (in thousands):

#### Unrealized Gain Recognized in

#### AOCI

| Third Quarter Ended | Nine Months Ended  |
|---------------------|--------------------|
| September 30, 2018  | September 30, 2018 |
| \$80                | —                  |

## 11. ACCUMULATED OTHER COMPREHENSIVE INCOME

The Company incurs activity in AOCI for unrealized gains on derivatives that qualify as hedges of cash flows, unrecognized pension costs and cumulative foreign currency translation adjustments. The activity in AOCI is as follows:

| (thousands)   | Cash Flow Hedges | Defined Benefit Pension | Foreign Currency Items | Total  |
|---|------------------|-------------------------|------------------------|--------|
| Balance at December 31, 2017  | \$ —             | \$ 66                   | \$ —                   | \$ 66  |
| Other comprehensive income (loss) (net of tax of \$28, \$0 and \$0) | 80               | —                       | (31)                   | 49     |
| Balance at September 30, 2018                                       | \$ 80            | \$ 66                   | \$ (31)                | \$ 115 |



## 12. FAIR VALUE MEASUREMENTS

The carrying amounts of cash and cash equivalents, trade receivables, and accounts payable approximated fair value as of September 30, 2018 and December 31, 2017 because of the relatively short maturities of these financial instruments. The carrying amounts of the 2018 Term Loan and the 2018 Revolver and of the 2015 Term Loan and the 2015 Revolver, approximated fair value as of September 30, 2018 and December 31, 2017, respectively, based upon terms and conditions available to the Company at those dates in comparison to the terms and conditions of its outstanding debt. The estimated fair value of the Convertible Notes, calculated using Level 2 inputs, was approximately \$164.4 million as of September 30, 2018.

## 13. INCOME TAXES

The effective tax rate in the third quarter of 2018 and 2017 was 25.3% and 36.0%, respectively, and the effective tax rate for the comparable nine months periods was 23.6% and 30.6%, respectively. The effective tax rate for the periods presented includes the impact of the recognition of excess tax benefits on share-based compensation that was recorded as a reduction to income tax expense upon realization. Amounts recorded include \$21,000 in the third quarter of 2017 with no comparable amount in the third quarter of 2018, and \$2.2 million and \$4.6 million for the first nine months of 2018 and 2017, respectively.

The Company paid income taxes of \$5.6 million and \$11.0 million in the third quarter of 2018 and 2017, respectively, and \$21.0 million and \$30.5 million in the first nine months of 2018 and 2017, respectively.

## 14. SEGMENT INFORMATION

The Company has determined that its reportable segments are those based on its method of internal reporting, which segregates its businesses by product category and production/distribution process.

A description of the Company's reportable segments is as follows:

**Manufacturing** – This segment includes the following: laminated products that are utilized to produce furniture, shelving, walls, countertops, and cabinet products, cabinet doors, fiberglass bath fixtures and tile systems, hardwood furniture, vinyl printing, solid surface, granite, and quartz countertop fabrication, RV painting, fabricated aluminum products, fiberglass and plastic components, softwoods lumber, custom cabinetry, polymer-based flooring, electrical systems components including instrument and dash panels, and other products. Patrick's major manufactured products also include wrapped vinyl, paper and hardwood profile mouldings, interior passage doors, slide-out trim and fascia, thermoformed shower surrounds, specialty bath and closet building products, fiberglass and plastic helm systems and components products, wiring and wire harnesses, boat covers, towers, tops and frames, aluminum fuel tanks, CNC molds and composite parts, and slotwall panels and components. The Manufacturing segment contributed approximately 78% and 83% of the Company's net sales for the first nine months ended September 30, 2018 and September 24, 2017, respectively.

**Distribution** – The Company distributes pre-finished wall and ceiling panels, drywall and drywall finishing products, electronics and audio systems components, wiring, electrical and plumbing products, appliances, fiber reinforced polyester products, cement siding, raw and processed lumber, interior passage doors, roofing products, laminate and ceramic flooring, shower doors, furniture, fireplaces and surrounds, interior and exterior lighting products, and other miscellaneous products, in addition to providing transportation and logistics services. The Distribution segment contributed approximately 22% and 17% of the Company's net sales for the first nine months ended September 30, 2018 and September 24, 2017, respectively.





The tables below present unaudited information about the sales and operating income of those segments.

Third Quarter Ended September 30, 2018

| (thousands)        | Manufacturing | Distribution | Total      |
|--------------------|---------------|--------------|------------|
| Net outside sales  | \$ 445,214    | \$ 129,925   | \$ 575,139 |
| Intersegment sales | 8,182         | 1,097        | 9,279      |
| Total sales        | 453,396       | 131,022      | 584,418    |
| Operating income   | 54,887        | 7,606        | 62,493     |

Third Quarter Ended September 24, 2017

| (thousands)        | Manufacturing | Distribution | Total      |
|--------------------|---------------|--------------|------------|
| Net outside sales  | \$ 337,542    | \$ 69,969    | \$ 407,511 |
| Intersegment sales | 7,530         | 562          | 8,092      |
| Total sales        | 345,072       | 70,531       | 415,603    |
| Operating income   | 37,916        | 4,198        | 42,114     |

Nine Months Ended September 30, 2018

| (thousands)        | Manufacturing | Distribution | Total        |
|--------------------|---------------|--------------|--------------|
| Net outside sales  | \$ 1,344,088  | \$ 387,762   | \$ 1,731,850 |
| Intersegment sales | 27,464        | 2,840        | 30,304       |
| Total sales        | 1,371,552     | 390,602      | 1,762,154    |
| Operating income   | 172,799       | 25,092       | 197,891      |

Nine Months Ended September 24, 2017

| (thousands)        | Manufacturing | Distribution | Total        |
|--------------------|---------------|--------------|--------------|
| Net outside sales  | \$ 958,785    | \$ 201,298   | \$ 1,160,083 |
| Intersegment sales | 21,935        | 1,814        | 23,749       |
| Total sales        | 980,720       | 203,112      | 1,183,832    |
| Operating income   | 110,176       | 12,376       | 122,552      |

The following table presents a reconciliation of segment operating income to consolidated operating income:

| (thousands)                              | Third Quarter Ended<br>September 30, 2018 | Nine Months Ended<br>September 24, 2017 | Third Quarter Ended<br>September 30, 2018 | Nine Months Ended<br>September 24, 2017 |
|--|---|---|---|---|
| Operating income for reportable segments | \$ 62,493                                 | \$ 42,114                               | \$ 197,891                                | \$ 122,552                              |
| Unallocated corporate expenses           | (8,911 )                                  | (6,703 )                                | (33,229 )                                 | (20,517 )                               |
| Amortization                             | (8,873 )                                  | (5,237 )                                | (25,140 )                                 | (14,239 )                               |
| Consolidated operating income            | \$ 44,709                                 | \$ 30,174                               | \$ 139,522                                | \$ 87,796                               |

Unallocated corporate expenses include corporate general and administrative expenses comprised of wages, insurance, taxes, supplies, travel and entertainment, professional fees and other.

## 15. STOCK REPURCHASE PROGRAMS

In January 2018, the Board approved a new stock repurchase program that authorized the repurchase of up to \$50.0 million of the Company's common stock over a 24-month period (the "2018 Repurchase Plan") to replace the repurchase plan the Board previously approved in January 2016 that had expired in January 2018.

In May 2018, the Board approved an increase in the amount of the Company's common stock that may be acquired over the next 24 months under the current stock repurchase program to \$50.0 million, which included the \$8.5 million remaining under the original \$50.0 million authorization announced in January 2018.

In the first nine months of 2018, the Company repurchased 1,282,930 shares under the 2018 Repurchase Plan at an average price of \$58.48 per share for a total cost of \$75.0 million.

In October 2018, the Board approved an increase in the amount of the Company's common stock that may be acquired over the next 24 months under the current stock repurchase program to \$50.0 million, which included the \$3.6 million remaining under the \$50.0 million authorization announced in May 2018. Year-to-date through November 7, 2018, the Company repurchased 1,796,484 shares at an average price of \$56.12 per share for a total cost of \$100.8 million.

### Common Stock

The Company's common stock does not have a stated par value. As a result, repurchases of common stock have been reflected, using an average cost method, as a reduction of common stock, additional paid-in-capital, and retained earnings on the Company's condensed consolidated statements of financial position.

## 16. RELATED PARTY TRANSACTIONS

In the first nine months of 2018, the Company entered into transactions with companies affiliated with two of its independent Board members. The Company purchased approximately \$0.9 million of corrugated packaging materials from Welch Packaging Group, an independently owned company established by M. Scott Welch who serves as its President and CEO. The Company also sold approximately \$0.5 million of RV component products to DNA Enterprises, Inc. ("DNA"). Walter E. Wells' son serves as the President of DNA.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### OVERVIEW

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Company's Condensed Consolidated Financial Statements and Notes thereto included in Item 1 of this Report. In addition, this MD&A contains certain statements relating to future results which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. See "Information Concerning Forward-Looking Statements" on page 40 of this Report. The Company undertakes no obligation to update these forward-looking statements.

The MD&A is divided into seven major sections:

### OVERVIEW OF MARKETS AND RELATED INDUSTRY PERFORMANCE

### REVIEW OF CONSOLIDATED OPERATING RESULTS

Third Quarter and Nine Months Ended September 30, 2018 Compared to 2017

REVIEW BY BUSINESS SEGMENT

Third Quarter and Nine Months Ended September 30, 2018 Compared to 2017

Unallocated Corporate Expenses

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## LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Capital Resources

Summary of Liquidity and Capital Resources

## CRITICAL ACCOUNTING POLICIES

OTHER

Seasonality

## INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

## OVERVIEW OF MARKETS AND RELATED INDUSTRY PERFORMANCE

### Summary

The first nine months of 2018 reflected a continuation of overall growth in each of our four primary markets, supported by continued positive demographic drivers and retail demand patterns, despite recent volatility in recreational vehicle ("RV") industry wholesale unit shipments. This recent volatility reflects a combination of normal seasonal trends and RV original equipment manufacturers ("OEMs") tactically flexing their production levels to aggressively balance dealer inventory levels to support retail demand expectations. The positive sentiment exhibited by both the RV dealers and OEMs during the annual dealer shows held in the August/September timeframe supports our belief in the sustainable long-term potential in this market, and our anticipation of the return to more balanced industry shipment levels consistent with anticipated retail demand as we move through the fourth quarter of 2018 and into the first quarter of 2019. Based on the geographic and capacity expansion efforts by both RV manufacturers and suppliers over the last several years, which resulted in reduced production lead times, we expect dealers to operate with lower inventory levels which will likely reduce orders in the fourth quarter of 2018. In the first nine months of 2018, the marine market continued to grow as evidenced by growth in retail unit sales, and the manufactured housing ("MH") market continued to reflect solid improvement based on the growth rate in estimated wholesale industry shipments. Additionally, we see a continuation of improving conditions in the industrial markets, as evidenced by growth in new housing starts and increases in commercial construction and institutional furniture spending.

We anticipate that attractive demographics, favorable retail trends in the RV and marine outdoor leisure and recreational lifestyle markets, improving consumer credit, consumer confidence, and historically low interest rates will all have a significant role in the ongoing growth we project for the primary markets we serve.

### RV Industry

The RV industry is our primary market and comprised 62% and 65% of the Company's sales in the third quarter and first nine months of 2018, respectively. Sales from the RV industry increased 30% and 41%, respectively, in the third quarter and first nine months of 2018 compared to the prior year periods.

According to the Recreation Vehicle Industry Association ("RVIA"), wholesale shipments totaled 107,130 units in the third quarter of 2018, representing the second highest third quarter wholesale unit shipment level on record and a decline of 12%, compared to record third quarter wholesale shipments of 121,565 units in the third quarter of 2017. Wholesale unit shipments of 378,718 units in the first nine months of 2018 were virtually unchanged versus the prior year period. Towable units shipped, which accounted for 88% of third quarter 2018 wholesale units, were down 11% compared to the prior year quarter, and motorized units were down approximately 15% in the third quarter of 2018.

Over the last several years, RV manufacturers have been increasing plant capacity to support and balance production levels to match demand and optimize their workflow following industry unit growth of 15% and 17%, respectively, for calendar years 2016 and 2017. For several years prior to 2018, many RV dealers experienced inventory shortages heading into the spring selling season as a result of strong double digit retail demand and longer production lead times than OEMs currently deliver. As a result, dealers placed higher than normal orders in the third and fourth quarters of 2017 in anticipation of a continuation of these trends in order to ensure there were adequate inventory levels on hand to satisfy anticipated customer demand heading into the 2018 model year season.

On the manufacturing side, the OEMs improved operations through strategic capacity initiatives which reduced lead times, optimized inventory days on hand, filled order backlogs and restocked the channel on a more real-time basis, allowing OEMs to more efficiently flex their production schedules to support retail demand expectations.

Based on the most recent available industry-wide survey data from Statistical Surveys, Inc. (“SSI”), in the first nine months of 2018, combined domestic and Canadian RV retail unit sales were up 5% year-over-year, which we expect to be further revised upwards as states complete reporting, consistent with past experience, and reflecting the inventory re-balancing discussed above. We generally see wholesale shipments exceed retail sales in the first half of the calendar year as the retail selling season ramps up for the second and third quarter peaks.

Although current volatility in the equity markets, the impact of tariffs, and rising interest rates may create some headwinds in the RV market, we believe the strength in RV retail demand continues to be supported by strong consumer confidence and by favorable demographic trends, with new, younger buyers continuing to enter the channel and incremental repeat buyers starting to emerge, providing momentum for continued demand in the industry both in new entrants and for upgrade purchases as families grow and seek larger units with more amenities.

We have continued to capture market share through our strategic acquisitions, line extensions, and the introduction of new and innovative products, which resulted in our overall sales levels in the first nine months of 2018 increasing at a rate substantially in excess of general industry results. We continue to have a favorable view of growth for the RV industry based on a number of factors including:

- Attractive industry demographic trends with new and younger buyers entering the market and baby boomers reaching retirement age;
- Readily available financing and improving consumer credit;
- New and innovative products coming to market;
- Consumer confidence;
- Increased strength in the overall economic environment, including lower unemployment rates, improving trends in wages and improving consumer confidence levels; and
- The value of the travel and leisure lifestyle related to spending quality time with families.

#### Marine Industry

Sales to the marine industry, which represented approximately 14% and 11% of the Company's consolidated net sales in the third quarter and first nine months of 2018, respectively, increased 138% and 153%, respectively, compared to the third quarter and first nine months of 2017.

As the marine industry reflects a similar active, outdoor leisure-based, family-oriented lifestyle that characterizes the RV industry, the Company expanded its presence in this market through recent acquisitions and organic growth in the first nine months of 2018. The Company's combination of design, engineering, manufacturing and fabrication capabilities, along with its growing geographic footprint and comprehensive product offerings to its customers in the marine market, provides continuing opportunities for fully integrated solutions and additional content for the marine OEMs.

In the first nine months of 2018, we completed five marine acquisitions and realized both organic and strategic market penetration by providing a full suite of options and solution-based products to the marine OEMs to support their growth needs and expectations. For the first nine months of 2018, overall marine retail unit shipments in the powerboat sector, which is the Company's primary marine market, increased approximately 2%, with aluminum fishing and pontoon combined sales increasing 3% and ski and wake sales up 8%, partially offset by a 1% decrease in fiberglass. Retail sales and wholesale unit shipments in this market are seasonal and are traditionally strongest in the second and third quarters. This market continues to make a steady recovery, with single-digit annual average growth

rates since 2010. Moreover, according to industry sources, the average age of boats in service is approximately 24 to 25 years compared to a 30-year estimated useful life, and approximately one million boats are expected to be retired over the next four years. The increased age of boats in service, low channel inventories and continued positive demographics all point to anticipated growth in the marine market.

### MH Industry

Sales to the MH industry, which represented 12% of the Company's sales in both the third quarter and first nine months of 2018, increased 28% and 35%, respectively, compared to the prior year. Based on industry data from the Manufactured Housing Institute and the Company's estimate for the month of September 2018, MH wholesale unit shipments increased by approximately 9% in both the third quarter and first nine months of 2018. The demographic trends within the MH market indicate strong expected demand patterns related to first time home buyers and those looking to downsize.

We currently expect steady growth in this market for the remainder of 2018 with growth rates and seasonality consistent with recent years. In addition, we believe we are well-positioned to capitalize on pent up demand and the significant upside potential of the MH market in the long-term, especially given the increasing attractiveness of the single-family manufactured housing option and the combination of our nationwide geographic footprint, available capacity in our current MH concentrated locations and our current content per unit levels.

In addition, as a result of recently announced initiatives by Fannie Mae, there is a potential for increases in loan availability in the MH market and resulting demand for MH products.

Factors that may favorably impact production levels further in this industry include improving quality credit standards in the residential housing market, new jobs growth, consumer confidence, favorable changes in financing regulations, a narrowing in the difference between interest rates on MH loans and mortgages on traditional residential "stick-built" housing, and any improvement in conditions in the asset-backed securities markets for manufactured housing loans.

### Industrial Market

The industrial market is comprised primarily of the kitchen cabinet industry, hospitality, retail and commercial fixtures market, office and household furniture market and regional distributors. Sales to this market represented 12% of our consolidated sales in both the third quarter and first nine months of 2018. This market is primarily impacted by macroeconomic conditions and more specifically, conditions in the residential housing market. The Company's industrial sales increased 53% and 58% in the third quarter and first nine months of 2018, respectively, compared to 2017, reflecting the expansion into new commercial markets, the introduction of new product lines related to acquisitions, new product development, and the penetration of adjacent markets and new geographic regions. In addition, the Company's sales in the first nine months of 2018 benefited from market share gains, particularly in the commercial and hospitality markets. The Company has also targeted certain sales efforts towards market segments that are less directly tied to new single and multi-family home construction, including the retail fixture, and office, medical, and institutional furnishings markets.

We estimate approximately 60% of our industrial revenue base was directly tied to the residential housing market in the third quarter and first nine months of 2018, where new housing starts increased approximately 4% and 6% for the respective periods, as reported in a U.S. Department of Commerce release dated October 17, 2018. Single-family residential housing starts increased 2% and 6%, respectively, and multi-family residential housing starts increased 6% and 7%, respectively, for the third quarter and first nine months of 2018. Industry growth was particularly strong in the western region of the U.S. as single and multi-family residential housing starts for the first nine months of 2018 were up 15% and 12%, respectively. The remaining 40% of our industrial business is directly tied to the non-residential and commercial markets.

The Company believes there is a direct correlation between the demand for its products in the residential housing market and new residential housing construction and remodeling activities. Sales to the industrial market generally lag new residential housing starts by six to nine months. While higher interest rates and tariffs are creating some current headwinds, we believe the lack of affordable housing capacity and inventories, improving consumer credit, jobs and wage growth, and demographic trends related to new buyers and those looking to downsize will continue to positively impact the housing industry for the next several years.



## Outlook

In general, the primary markets we serve experienced overall growth in the first nine months of 2018 compared to the prior year, and we expect to see continued overall industry growth throughout the remainder of 2018 in most of our markets along with an expected return to a more normalized pattern of RV wholesale unit production in alignment with retail demand. We are currently forecasting a decline of low-to-mid single digits related to RV wholesale unit shipment levels in 2018 when compared to the full year 2017 as part of expected industry recalibration. Based on its most recent forecast, the RVIA expects wholesale unit shipments for fiscal 2019 to range from low single digit declines to low single digit growth compared to full year 2018.

On the MH side, we are currently forecasting high single digit growth rates in wholesale unit shipments for 2018 reflecting the improvement in single-family residential housing starts. We are currently anticipating high single digit to low double digit growth rates in MH wholesale unit shipments for fiscal 2019 and mid-single digit growth rates in the residential housing market, with potential double digit growth rates in the southern and western regions, housing, hospitality and commercial markets.

As it relates to the marine market, we currently estimate 2018 retail unit growth in the powerboat sector of low-to-mid-single digits, and expected low to mid-single digit growth in 2019.

In the industrial market, which is primarily tied to the residential housing market, the National Association of Home Builders (per its housing and interest rate forecast as of October 4, 2018) is currently forecasting an approximate 5% year-over-year increase in new housing starts in 2018 compared to 2017, and a 2% year-over-year increase for 2019 compared to 2018.

We will continue to review our operations on a regular basis, balance appropriate risks and opportunities, and maximize efficiencies to support the Company's long-term strategic growth goals. Our team remains focused on strategic acquisitions in our existing, similar or complementary businesses, expanding operations in targeted regional territories, capturing market share and increasing our per unit content, keeping costs aligned with revenue, maximizing operating efficiencies, focusing on strategic capital expenditures to achieve cost reductions, labor efficiencies and increased capacity, talent management, engagement and retention, and the execution of our organizational strategic agenda.

In conjunction with our organizational strategic agenda, we will continue to make targeted capital investments to support new business and leverage our operating platform, and we will continue to work to strengthen and broaden customer relationships and meet customer demands with the highest quality service and the goal of continually exceeding our customers' expectations. The current capital plan for full year 2018 includes expenditures of approximately \$30 million related primarily to strategic investments in geographic expansions, the strategic replacement and upgrading of production equipment to improve efficiencies and increase capacity, new process and product development, and other strategic capital and maintenance improvements. We will continue to assess our capital expenditure needs given market demands and make adjustments where necessary to address capacity constraints within the Company's operations.

## REVIEW OF CONSOLIDATED OPERATING RESULTS

Third Quarter and Nine Months Ended September 30, 2018 Compared to 2017

The following table sets forth the percentage relationship to net sales of certain items on the Company's Condensed Consolidated Statements of Income.

|  | Third Quarter Ended |                    | Nine Months Ended  |                    |       |   |
|--|---------------------|--------------------|--------------------|--------------------|-------|---|
|  | September 30, 2018  | September 30, 2017 | September 30, 2018 | September 30, 2017 |       |   |
| Net sales                                    | 100.0%              | 100.0              | %                  | 100.0%             | 100.0 | % |
| Cost of goods sold                           | 81.5                | 83.0               |                    | 81.6               | 82.9  |   |
| Gross profit                                 | 18.5                | 17.0               |                    | 18.4               | 17.1  |   |
| Warehouse and delivery expenses              | 3.4                 | 2.7                |                    | 3.2                | 2.8   |   |
| Selling, general and administrative expenses | 5.8                 | 5.6                |                    | 5.7                | 5.5   |   |
| Amortization of intangible assets            | 1.5                 | 1.3                |                    | 1.4                | 1.2   |   |
| Operating income                             | 7.8                 | 7.4                |                    | 8.1                | 7.6   |   |
| Interest expense, net                        | 1.3                 | 0.5                |                    | 1.0                | 0.5   |   |
| Income taxes                                 | 1.6                 | 2.5                |                    | 1.7                | 2.2   |   |
| Net income                                   | 4.9                 | 4.4                |                    | 5.4                | 4.9   |   |

Net Sales. Net sales in the third quarter of 2018 increased \$167.6 million or 41% to \$575.1 million from \$407.5 million in the third quarter of 2017. The Company's net sales increased in all four of its primary markets in the third quarter of 2018 as evidenced by increases of 30% in RV, 138% in marine, 28% in MH, and 53% in industrial. In the third quarter of 2018 and 2017, revenue attributable to acquisitions completed in each of those periods was \$82.4 million and \$29.3 million, respectively.

Net sales in the first nine months of 2018 increased \$571.8 million or 49%, to \$1.7 billion from \$1.2 billion in the prior year period. The increase in net sales was attributable to increases of 41% in RV, 153% in marine, 35% in MH, and 58% in industrial. In the first nine months of 2018 and 2017, revenue attributable to acquisitions completed in each of those periods was \$160.0 million and \$47.7 million, respectively.

In the first nine months of 2018, we acquired Metal Moulding Corporation, Aluminum Metals Company, LLC, IMP Holdings, LLC d/b/a/ Indiana Marine Products, Collins & Company, Inc., Dehco, Inc., Dowco, Inc., Marine Accessories Corporation, and Engineered Metals and Composites, Inc. In the first nine months of 2017, we acquired Medallion Plastics, Inc., Leisure Product Enterprises, LLC, Indiana Technologies, Inc. d/b/a Wire Design, and Baymont, Inc.

The consolidated net sales increase in both the third quarter and the first nine months of 2018 reflect the revenue contribution of: (i) each of the acquisitions completed in the first nine months of 2018 with the exception of Engineered Metals and Composites, Inc. which was acquired on the last business day of the third quarter of 2018; (ii) the incremental contribution of the four acquisitions completed in the first nine months of 2017; and (iii) the revenue contribution of the three acquisitions completed in the fourth quarter of 2017, namely Indiana Transport, Inc., LMI, Inc. and Related Companies, and Nickell Moulding Company, Inc.

The consolidated net sales increase in both the third quarter and first nine months of 2018 was also a function of: (i) increased penetration including geographic and product expansion efforts in the primary markets; (ii) an increase in wholesale unit shipments in the MH industry and in powerboat retail unit shipments in the marine industry; and (iii) improved residential housing starts.

The Company's RV content per unit (on a trailing twelve-month basis) for the third quarter of 2018 increased approximately 36% to \$2,880 from \$2,123 for the third quarter of 2017. The marine content per retail unit (on a trailing twelve-month basis) for the third quarter of 2018 increased approximately 152% to an estimated \$1,058 from

\$420 for the

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third quarter of 2017. The MH content per unit (on a trailing twelve-month basis) for the third quarter of 2018 increased approximately 22% to an estimated \$2,632 from \$2,159 for the third quarter of 2017.

The RV industry, which represented 62% and 65% of the Company's sales in the third quarter and first nine months of 2018, experienced a 12% decline in wholesale unit shipments in the third quarter of 2018 and were essentially unchanged in the first nine months of 2018 compared to 2017. The MH industry, which represented 12% of the Company's sales in both the third quarter and first nine months of 2018, experienced a 9% increase in wholesale unit shipments, as estimated by the Company, in both the third quarter and first nine months of 2018 compared to the prior year periods. Revenues from the marine industry represented 14% and 11% of the Company's sales in the third quarter and first nine months of 2018, respectively. For the first nine months of 2018, powerboat marine retail unit shipments were up approximately 2% with aluminum fishing and pontoon combined sales up 3% and ski and wake sales up 8%, partially offset by a 1% decrease in fiberglass. The industrial market sector accounted for approximately 12% of the Company's sales in both the third quarter and first nine months of 2018. We estimate that approximately 60% of our industrial revenue base was directly tied to the residential housing market in the first nine months of 2018, which experienced an increase in new housing starts of approximately 6% compared to the prior year period (as reported by the U.S. Department of Commerce).

**Cost of Goods Sold.** Cost of goods sold increased \$130.2 million or 38% to \$468.5 million in the third quarter of 2018 from \$338.3 million in 2017. As a percentage of net sales, cost of goods sold decreased during the third quarter of 2018 to 81.5% from 83.0% in 2017. For the first nine months of 2018, cost of goods sold increased \$450.8 million or 47%, to \$1,412.6 million from \$961.9 million in the prior year period, and as a percentage of net sales decreased to 81.6% from 82.9% in the prior year period.

Cost of goods sold as a percentage of net sales was positively impacted during both the third quarter and first nine months of 2018 by: (i) increased revenue relative to overall fixed overhead costs; (ii) the impact of acquisitions completed during 2017 and 2018 and the addition of new higher margin product lines; and (iii) the ongoing deployment of strategic capital investments and labor initiatives to automate certain processes, improve efficiencies, and alleviate certain labor inefficiencies. Partially offsetting the decline in cost of goods sold as a percentage of net sales for the first nine months of 2018 was the impact of higher labor costs related to tight labor markets, particularly in the Midwest, with this labor impact decreasing in the third quarter of 2018. In addition, the Company's cost of goods sold percentage can be impacted from quarter-to-quarter by demand changes in certain market sectors that can result in fluctuating costs of certain raw materials and commodity-based components that are utilized and distributed. Tariffs on Chinese aluminum and steel implemented in March 2018 had minimal impact on the Company's cost of materials in the third quarter and first nine months of 2018, as over 95% of the Company's finished metal products and components on a cost basis are sourced domestically. On a consolidated basis, finished metal products and components represent less than 10% of the Company's total cost of materials. Additionally, over 90% of the Company's total materials on a cost basis are sourced either domestically or outside of China. At the same time, however, prices on domestic finished metal products and components have risen to reflect increased demand as a result of the tariffs, and the Company has instituted price increases to its customers to help mitigate the incremental costs.

Tariffs on additional Chinese products that went into effect in late September 2018 include certain items the Company sources directly from China, although not all of the products the Company sources from China are subject to the additional tariffs. With these tariffs scheduled to increase from 10% to 25% in January 2019, the Company has been actively working to mitigate the incremental costs by strategically (i) increasing and managing inventory levels; (ii) exploring alternative sources of product; (iii) working with vendors to share the costs of the tariffs; and (iv) instituting price increases to its customers that would become effective in 2019, where appropriate. As a result, the Company does not expect that these additional tariffs will have a material impact on its results of operation.

**Gross Profit.** Gross profit increased \$37.5 million or 54%, to \$106.7 million in the third quarter of 2018 from \$69.2 million in 2017. For the first nine months of 2018, gross profit increased \$121.0 million or 61%, to \$319.2 million

from \$198.2 million in 2017. As a percentage of net sales, gross profit increased to 18.5% in the third quarter of 2018 from 17.0% in the same period in 2017, and increased to 18.4% in the first nine months of 2018 from 17.1% in the prior year period. The improvement in gross profit dollars and the impact to the percentage of net sales in the third quarter and first nine months of 2018 compared to 2017 reflected the impact of the factors discussed above under “Cost of Goods Sold”.

Economic or industry-wide factors affecting the profitability of our RV, MH, marine and industrial businesses include the costs of commodities and the labor used to manufacture our products as well as the competitive environment that can cause gross margins to fluctuate from quarter-to-quarter and year-to-year. Material and labor costs are the primary factors determining our cost of products sold, and any future increases in raw material or labor costs would impact our profit margins negatively if we were unable to raise the selling prices to our customers for our products by corresponding amounts. Historically, we have generally been able to pass along cost increases to customers.

**Warehouse and Delivery Expenses.** Warehouse and delivery expenses increased \$8.8 million or 80%, to \$19.8 million in the third quarter of 2018 from \$11.0 million in 2017. For the first nine months of 2018, warehouse and delivery expenses increased \$23.1 million or 71%, to \$55.5 million from \$32.4 million in 2017. As a percentage of net sales, warehouse and delivery expenses were 3.4% in the third quarter of 2018 compared to 2.7% in the third quarter of 2017. For the nine months periods, warehouse and delivery expenses were 3.2% and 2.8% of net sales for 2018 and 2017, respectively. The expense increase in both the third quarter of 2018 and the first nine months of 2018 was primarily attributable to increased sales volumes and the impact of certain acquisitions completed in 2017 and 2018 that had higher warehouse and delivery expenses as a percentage of net sales when compared to the consolidated percentage.

**Selling, General and Administrative (SG&A) Expenses.** SG&A expenses increased \$10.5 million or 46%, to \$33.3 million in the third quarter of 2018 from \$22.8 million in 2017. For the first nine months, SG&A expenses increased \$35.2 million or 55%, to \$99.0 million in 2018 from \$63.8 million in 2017. As a percentage of net sales, SG&A expenses were 5.8% in the third quarter of 2018 compared to 5.6% in the third quarter of 2017. For the nine months periods, SG&A expenses were 5.7% and 5.5% of net sales for 2018 and 2017, respectively.

The increase in SG&A expenses as a percentage of net sales in the third quarter and first nine months of 2018 compared to the prior year periods primarily reflected: (i) the impact of additional headcount and administrative expenses associated with recent acquisitions; (ii) the additional investment in and costs related to an expansion of certain leadership roles to support our continued strategic growth plans in 2018 and beyond; (iii) increased stock-based and incentive compensation expense designed to attract and retain key employees; and (iv) the impact of certain acquisitions completed in 2017 and 2018 that had higher SG&A expenses as a percentage of net sales when compared to the consolidated percentage.

**Amortization of Intangible Assets.** Amortization of intangible assets increased \$3.6 million and \$10.9 million in the third quarter and first nine months of 2018, respectively, compared to prior year, primarily reflecting the impact of acquisitions completed in 2017 and in the first nine months of 2018. In the aggregate, in conjunction with the 2017 and 2018 acquisitions, the Company recognized an estimated \$230.1 million in certain finite-lived intangible assets that are being amortized over periods ranging from three to 10 years.

**Operating Income.** Operating income increased \$14.5 million or 48%, to \$44.7 million in the third quarter of 2018 from \$30.2 million in 2017. As a percentage of net sales, operating income was 7.8% in the third quarter of 2018 versus 7.4% in the same period in 2017. Operating income in the third quarter of 2018 and 2017 included \$8.8 million and \$4.0 million, respectively, attributable to the acquisitions completed in each of those periods. The change in operating income and operating margin is primarily attributable to the items discussed above.

For the first nine months of 2018, operating income increased \$51.7 million or 59%, to \$139.5 million from \$87.8 million in 2017. As a percentage of net sales, operating income increased to 8.1% in the nine months of 2018 from 7.6% in the prior year period. For the first nine months of 2018 and 2017, operating income attributable to acquisitions completed in each of those periods was \$17.3 million and \$6.0 million, respectively. The change in operating income and operating margin is primarily attributable to the items discussed above.

Interest Expense, Net. Interest expense increased \$5.2 million to \$7.3 million in the third quarter of 2018 from \$2.1 million in the prior year. For the first nine months of 2018, interest expense increased \$11.8 million to \$18.0 million from \$6.2 million in the prior year period. The increase in interest expense reflects increased borrowings primarily to fund acquisitions and increased working capital needs in the third quarter and first nine months of 2018, as well as increases in the average interest rate on the variable rate portion of the Company's debt which reflects recent increases in LIBOR in 2018 compared to the prior year.

Income Taxes. For the third quarter of 2018, the effective tax rate was 25.3% compared to 36.0% in the comparable 2017 period. For the first nine months of 2018, the effective tax rate was 23.6% compared to 30.6% for the prior year period.

The effective tax rate for the periods presented includes the impact of the recognition of excess tax benefits on share-based compensation that were recorded as a reduction to income tax expense upon realization. Amounts recorded include \$21,000 in the third quarter of 2017 with no comparable amount in the third quarter of 2018, and \$2.2 million and \$4.6 million for the first nine months of 2018 and 2017, respectively. Exclusive of the impact relating to the share-based payment awards in the first nine months of 2018 and any additional impact in the remainder of 2018, we anticipate our full year 2018 effective tax rate to be between 25% and 26%.

The Company's combined effective income tax rate from period to period and for the full year 2018 could further fluctuate due to: (i) refinements in federal and state income tax estimates, which are impacted by the availability of tax credits; (ii) permanent differences impacting the effective tax rate; (iii) shifts in apportionment factors among states as a result of recent acquisition activity and other factors; and (iv) the timing of the recognition of excess tax benefits related to the vesting of share-based payments awards as previously discussed.

**Net Income.** Net income for the third quarter of 2018 was \$27.9 million or \$1.15 per diluted share compared to \$17.9 million or \$0.72 per diluted share for 2017. For the first nine months, net income was \$92.9 million or \$3.77 per diluted share in 2018 compared to \$56.7 million or \$2.32 per diluted share for 2017. The changes in net income for the third quarter and first nine months of 2018 reflect the impact of the items previously discussed.

#### REVIEW BY BUSINESS SEGMENT

The Company has determined that its reportable segments are those based on its method of internal reporting, which segregates its businesses by product category and production/distribution process.

The Company's reportable business segments are as follows:

**Manufacturing** – This segment includes the following: laminated products that are utilized to produce furniture, shelving, walls, countertops, and cabinet products, cabinet doors, fiberglass bath fixtures and tile systems, hardwood furniture, vinyl printing, solid surface, granite, and quartz countertop fabrication, RV painting, fabricated aluminum products, fiberglass and plastic components, softwoods lumber, custom cabinetry, polymer-based flooring, electrical systems components including instrument and dash panels, and other products. Patrick's major manufactured products also include wrapped vinyl, paper and hardwood profile mouldings, interior passage doors, slide-out trim and fascia, thermoformed shower surrounds, specialty bath and closet building products, fiberglass and plastic helm systems and components products, wiring and wire harnesses, boat cover, towers, tops and frames, aluminum fuel tanks, CNC molds and composite parts, and slotwall panels and components.

**Distribution** – The Company distributes pre-finished wall and ceiling panels, drywall and drywall finishing products, electronics and audio systems components, wiring, electrical and plumbing products, appliances, fiber reinforced polyester products, cement siding, raw and processed lumber, interior passage doors, roofing products, laminate and ceramic flooring, shower doors, furniture, fireplaces and surrounds, interior and exterior lighting products, and other miscellaneous products, in addition to providing transportation and logistics services.

#### Third Quarter and Nine Months Ended September 30, 2018 Compared to 2017

##### General

In the discussion that follows, sales attributable to the Company's operating segments include intersegment sales and gross profit includes the impact of intersegment operating activity.

The table below presents information about the sales, gross profit and operating income of the Company's operating segments. A reconciliation of consolidated operating income is presented in Note 14 to the Condensed Consolidated Financial Statements.





| (thousands)             | Third Quarter Ended |                    | Nine Months Ended  |                    |
|-------------------------|---------------------|--------------------|--------------------|--------------------|
|                         | September 30, 2018  | September 24, 2017 | September 30, 2018 | September 24, 2017 |
| <b>Sales</b>            |                     |                    |                    |                    |
| Manufacturing           | \$453,396           | \$ 345,072         | \$ 1,371,552       | \$ 980,720         |
| Distribution            | 131,022             | 70,531             | 390,602            | 203,112            |
| <b>Gross Profit</b>     |                     |                    |                    |                    |
| Manufacturing           | 86,015              | 58,119             | 262,824            | 167,037            |
| Distribution            | 21,974              | 10,870             | 63,668             | 32,678             |
| <b>Operating Income</b> |                     |                    |                    |                    |
| Manufacturing           | 54,887              | 37,916             | 172,799            | 110,176            |
| Distribution            | 7,606               | 4,198              | 25,092             | 12,376             |

### Manufacturing

**Sales.** Sales increased \$108.3 million or 31%, to \$453.4 million in the third quarter of 2018 from \$345.1 million in 2017. For the first nine months of 2018, sales increased \$390.8 million or 40%, to \$1.4 billion from \$980.7 million in the prior year period. This segment accounted for approximately 77% and 78% of the Company's consolidated net sales for the third quarter and first nine months of 2018, respectively, and 83% for both the third quarter and first nine months of 2017. The sales increase in the third quarter and first nine months of 2018 largely reflected an increase in revenue from all four of the Company's primary markets.

Revenue in the third quarter and first nine months of 2018 included \$51.8 million and \$99.0 million, respectively, related to acquisitions completed in the first nine months of 2018. Revenue in the third quarter and first nine months of 2017 included \$29.3 million and \$47.7 million, respectively, related to acquisitions completed in the first nine months of 2017. The sales increase in both the third quarter and the first nine months of 2018 is also attributable to: (i) increased penetration including geographic and product expansion efforts in the primary markets; (ii) an increase in wholesale unit shipments in the MH industry and in powerboat retail unit shipments in the marine industry; and (iii) improved residential housing starts.

**Gross Profit.** Gross profit increased \$27.9 million or 48%, to \$86.0 million in the third quarter of 2018 from \$58.1 million in the third quarter of 2017. As a percentage of sales, gross profit increased to 19.0% in the third quarter of 2018 from 16.8% in 2017. For the first nine months of 2018, gross profit increased \$95.8 million or 57%, to \$262.8 million from \$167.0 million in the prior year period. As a percentage of sales, gross profit increased to 19.2% in the first nine months of 2018 from 17.0% in 2017.

Gross profit was positively impacted during the third quarter and first nine months of 2018 by: (i) increased revenue relative to overall fixed overhead costs; (ii) the impact of acquisitions completed during 2017 and 2018 and the addition of new higher margin product lines; and (iii) the ongoing deployment of strategic capital investments and labor initiatives to automate certain processes, improve efficiencies and alleviate certain labor inefficiencies. The impact of higher labor costs for the first nine months of 2018 related to tight labor markets, particularly in the Midwest, partially offset the improvement in gross profit as a percentage of net sales resulting from the factors discussed above, with this labor impact decreasing in the third quarter of 2018. In addition, the gross profit percentage can be impacted from quarter-to-quarter by demand changes in certain market sectors, as well as the impact of tariffs, that can result in fluctuating costs of certain raw materials and commodity-based components.

**Operating Income.** Operating income increased \$17.0 million to \$54.9 million in the third quarter of 2018 from \$37.9 million in the prior year. For the first nine months of 2018, operating income increased \$62.6 million to \$172.8 million from \$110.2 million in the comparable 2017 period. The improvement in operating income primarily reflects

the increase in gross profit mentioned above. Operating income in the third quarter and first nine months of 2018 included \$7.0 million and \$12.9 million, respectively, attributable to acquisitions completed in the first nine months of 2018. Operating income in the third quarter and first nine months of 2017 included \$4.0 million and \$6.0 million, respectively, related to acquisitions completed in the first nine months of 2017.

## Distribution

**Sales.** Sales increased \$60.5 million or 86%, to \$131.0 million in the third quarter of 2018 from \$70.5 million in 2017. For the first nine months of 2018, sales increased \$187.5 million or 92%, to \$390.6 million from \$203.1 million in the prior year period. This segment accounted for approximately 23% and 22%, respectively, of the Company's consolidated net sales for the third quarter and first nine months of 2018, and 17% for both the third quarter and first nine months of 2017. The sales increase in the third quarter and first nine months of 2018 largely reflected an increase in the Company's revenue from all four of the Company's primary markets.

Revenue in the third quarter and first nine months of 2018 included \$30.6 million and \$61.0 million, respectively, related to the acquisitions completed in the first nine months of 2018. The acquisitions completed in the first nine months of 2017 were related to the Manufacturing segment, and therefore there was no impact from these acquisitions on revenues in the Distribution segment.

**Gross Profit.** Gross profit increased \$11.1 million to \$22.0 million in the third quarter of 2018 from \$10.9 million in the third quarter of 2017. As a percentage of sales, gross profit increased to 16.8% in the third quarter of 2018 from 15.4% in 2017, primarily reflecting the impact of acquisitions completed during the fourth quarter of 2017 and in 2018 which had higher margin product lines. For the first nine months of 2018, gross profit increased \$31.0 million or 95%, to \$63.7 million from \$32.7 million in 2017. As a percentage of sales, gross profit was 16.3% and 16.1% in the first nine months of 2018 and 2017, respectively. The increase in gross profit as a percentage of sales in the first nine months of 2018 was primarily attributable to leveraging fixed costs on higher sales volumes, the impact of acquisitions completed in the fourth quarter of 2017 and during 2018, and the addition of new higher margin product lines.

**Operating Income.** Operating income increased \$3.4 million to \$7.6 million in the third quarter of 2018 from \$4.2 million in the prior year. For the first nine months of 2018, operating income increased \$12.7 million to \$25.1 million from \$12.4 million in 2017. Operating income in the third quarter and first nine months of 2018 included \$1.8 million and \$4.4 million related to acquisitions completed in the first nine months of 2018. The acquisitions completed in the first nine months of 2017 were related to the Manufacturing segment, and therefore there was no impact from these acquisitions on operating income in the Distribution segment. The overall net improvement in operating income in the third quarter and first nine months of 2018 primarily reflects the items discussed above.

## Unallocated Corporate Expenses

Unallocated corporate expenses in the third quarter of 2018 increased \$2.2 million to \$8.9 million from \$6.7 million in the prior year period. In the first nine months of 2018, unallocated corporate expenses increased \$12.7 million to \$33.2 million from \$20.5 million in the first nine months of 2017. Unallocated corporate expenses in both the third quarter and first nine months of 2018 and 2017 included the impact of an increase in administrative wages, incentives and payroll taxes, and additional headcount associated with 2018 and 2017 acquisitions.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flows

#### Operating Activities

Cash flows from operations represent the net income earned in the reported periods adjusted for non-cash items and changes in operating assets and liabilities. Our primary sources of liquidity have been cash flows from operating activities, borrowings under our credit facility, and proceeds from other financing activities. Principal uses of cash are to support working capital demands, meet debt service requirements and support our capital allocation strategy, which

includes acquisitions, capital expenditures, and repurchases of the Company's common stock, among others.

Net cash provided by operating activities was \$127.4 million in the first nine months of 2018 compared to \$32.9 million in 2017. Net income was \$92.9 million in the first nine months of 2018 compared to \$56.7 million in 2017.

Net of acquisitions, trade receivables increased \$29.3 million in the first nine months of 2018 and \$57.3 million in the same period of 2017, primarily reflecting; (i) increased sales levels in each of those periods, including the post-acquisition sales

increases of the acquisitions completed in 2018, 2017 and 2016, that were offset in part by the timing of certain customer payments.

Inventories, net of acquisitions, increased \$13.2 million and \$20.1 million in the first nine months of 2018 and 2017, respectively, primarily reflecting the post-acquisition sales and inventory increases associated with recent acquisitions. The Company continually works with its key suppliers to match lead-time and minimum order requirements, although it may see fluctuations in inventory levels from quarter to quarter as a result of taking advantage of strategic buying opportunities.

The \$21.3 million net increase in accounts payable, accrued liabilities and other in the first nine months of 2018 and the \$26.9 million net increase in the comparable 2017 period, primarily reflect the increased level of business activity, the timing and impact of acquisitions, and ongoing operating cash management.

The Company paid income taxes of \$21.0 million in the first nine months of 2018. For the comparable period in 2017, the Company paid income taxes of \$30.5 million.

#### Investing Activities

Investing activities used cash of \$311.0 million in the first nine months of 2018, primarily to fund the acquisition of the businesses acquired in that period for \$290.1 million in the aggregate, and for capital expenditures of \$26.1 million. Investing activities used cash of \$110.3 million in the first nine months of 2017, primarily to fund the acquisition of the businesses acquired in that period for \$97.3 million in the aggregate, and for capital expenditures of \$13.2 million.

Our current operating model forecasts capital expenditures for fiscal 2018 of approximately \$30 million related primarily to strategic investments in geographic expansions, the strategic replacement and upgrading of production equipment to improve efficiencies and increase capacity, new process and product development, and other strategic capital and maintenance improvements.

#### Financing Activities

Net cash flows provided by financing activities were \$181.1 million in the first nine months of 2018 compared to \$77.4 million in the comparable 2017 period.

Total term loan borrowings, net of repayments, were \$30.5 million in the first nine months of 2018 versus term loan repayments of \$7.9 million in the prior year period. In addition, the Company had net revolver borrowings of \$76.6 million in the first nine months of 2018 and net revolver repayments of \$4.9 million in the first nine months of 2017. Stock repurchases were \$75.0 million in the first nine months of 2018 with no comparable amount in 2017. In the fourth fiscal quarter of 2018, through November 7, 2018, the Company made additional stock repurchases totaling \$25.8 million in the aggregate. See Note 15 to the Condensed Consolidated Financial Statements for additional details.

In January 2018, the Company issued \$172.5 million aggregate principal amount of its 1.00% Convertible Senior Notes due 2023 (the "Convertible Notes"), raising \$167.5 million in net proceeds, after deducting the initial purchasers' discounts and commissions and offering expenses payable by the Company. In connection with the offering, the Company entered into convertible note hedge transactions and warrant transactions, receiving proceeds of \$18.1 million related to the warrant transactions. The Company used the net proceeds from the offering and the warrant transactions to pay \$31.5 million associated with the cost of the convertible note hedge transactions and to reduce borrowings under the 2015 Revolver. See Notes 9 and 10 to the Condensed Consolidated Financial Statements for additional details.

In March 2017, the Company completed a public offering of 2,025,000 shares of its common stock. The net proceeds from the offering of \$93.3 million were used to pay down a portion of the Company's outstanding indebtedness.

## Capital Resources

### 2015 Credit Facility

Prior to June 5, 2018, the Company's credit facility was established under its credit agreement, dated April 28, 2015, with Wells Fargo Bank, National Association ("Wells Fargo"), as Administrative Agent and a lender, and the lenders party thereto, as amended (the "2015 Credit Agreement"). The 2015 Credit Agreement consisted of a \$417.3 million revolving credit loan (the "2015 Revolver") and up to an \$82.7 million term loan (the "2015 Term Loan" and, together with the Revolver, the "2015 Credit Facility"). The 2015 Credit Facility had a maturity date of March 17, 2022 and was replaced by the 2018 Credit Facility (as defined herein).

### 2018 Credit Facility

The Company entered into a Second Amended and Restated Credit Agreement, dated as of June 5, 2018, (the "2018 Credit Agreement") by and among the Company, the Lenders party thereto, and Wells Fargo, as Administrative Agent. The 2018 Credit Agreement amended and restated the Company's 2015 Credit Agreement.

The 2018 Credit Facility is comprised of an \$800 million revolving credit loan (the "2018 Revolver") and a \$100 million term loan (the "2018 Term Loan" and, together with the 2018 Revolver, the "2018 Credit Facility"). The March 17, 2022 maturity date for borrowings under the 2018 Credit Agreement remained unchanged from the 2015 Credit Agreement.

The 2018 Credit Agreement continues to be secured by substantially all personal property assets of the Company and any domestic subsidiary guarantors.

At September 30, 2018, the Company had \$97.5 million outstanding under the 2018 Term Loan and \$364.0 million under the 2018 Revolver.

Pursuant to the 2018 Credit Agreement, the financial covenants include: (a) a required maximum consolidated total leverage ratio, measured on a quarter-end basis, not to exceed 3.00:1.00 for the 12-month period ending on such quarter-end; and (b) a required minimum consolidated fixed charge coverage ratio, measured on a quarter-end basis, of at least 1.50:1.00 for the 12-month period ending on such quarter-end.

As of and for the September 30, 2018 reporting date, the Company was in compliance with both of these financial debt covenants as required under the terms of the 2018 Credit Agreement. The required maximum consolidated total leverage ratio and the required minimum consolidated fixed charge coverage ratio compared to the actual amounts as of September 30, 2018 and for the fiscal period then ended are as follows:

|  | Required | Actual |
|--|----------|--------|
| Consolidated total leverage ratio (12-month period)        | 3.00     | 2.26   |
| Consolidated fixed charge coverage ratio (12-month period) | 1.50     | 3.51   |

Additional information regarding (1) certain definitions, terms and reporting requirements included in the 2018 Credit Agreement; (2) the interest rates for borrowings at September 30, 2018; (3) the impact of interest rate swaps; and (4) the calculation of both the consolidated total leverage ratio and the consolidated fixed charge coverage ratio is included in Note 9 to the Condensed Consolidated Financial Statements.

### Convertible Senior Notes

In January 2018, the Company issued the Convertible Notes. The total debt discount at closing of \$36.0 million represented (1) the difference between the principal amount of the Convertible Notes upon issuance less the present value of the future cash flows of the Convertible Notes or \$31.9 million plus (2) the debt discount portion of the issuance costs of \$4.1 million. The unamortized portion of the total debt discount is being amortized to interest expense over the life of the Convertible Notes beginning in the first quarter of 2018. The unamortized portion of the



debt discount as of September 30, 2018 was \$31.7 million.

The net proceeds from the issuance of the Convertible Notes were approximately \$167.5 million, after deducting the initial purchasers' discounts and commissions and offering expenses payable by the Company, but before deducting the net cost

of the convertible note hedge and warrant transactions described in Note 10 to the Condensed Consolidated Financial Statements. The Convertible Notes are senior unsecured obligations of the Company and pay interest semi-annually on February 1 and August 1 of each year at an annual rate of 1.00%. The Convertible Notes will mature on February 1, 2023 unless earlier repurchased or converted in accordance with their terms.

Additional information regarding the conversion features and conditions of the convertibility of the Convertible Notes into cash, shares of common stock of the Company, or a combination thereof, is included in Note 9 to the Condensed Consolidated Financial Statements.

#### Summary of Liquidity and Capital Resources

The Company's primary sources of liquidity are cash flow from operations, which includes selling its products and collecting receivables, available cash reserves and borrowing capacity available under the 2018 Credit Facility. Principal uses of cash are to support working capital demands, meet debt service requirements and support the Company's capital allocation strategy, which includes acquisitions, capital expenditures, and repurchases of the Company's common stock, among others.

Borrowings under the 2015 Revolver and the 2015 Term Loan under the 2015 Credit Facility, which were subject to variable rates of interest, were subject to a maximum total borrowing limit of \$450.0 million (effective January 1, 2018 to January 28, 2018), and of \$500.0 million (effective January 29, 2018 to June 4, 2018). Borrowings under the 2018 Revolver and the 2018 Term Loan under the 2018 Credit Facility, a portion of which are subject to variable rates of interest, were subject to a maximum total borrowing limit of \$900.0 million (effective June 5, 2018). See Notes 9 and 10 to the Condensed Consolidated Financial Statements for further information on the Company's use of interest rate swaps as a cash flow hedge on a portion of the 2018 Credit Facility. For the first nine months of 2018 and for the fiscal year ended December 31, 2017, we were in compliance with all of our debt covenants under the terms of the credit agreement in existence at the time. As of September 30, 2018, the unused availability under the 2018 Revolver, net of cash on hand, was \$434.1 million.

The Company's existing cash and cash equivalents, cash generated from operations, and available borrowings under its 2018 Credit Facility will be sufficient to meet anticipated cash needs for working capital and capital expenditures for at least the next 12 months, exclusive of any acquisitions, based on its current cash flow budgets and forecast of our short-term and long-term liquidity needs.

The ability to access unused borrowing capacity under the 2018 Credit Facility as a source of liquidity is dependent on maintaining compliance with the financial covenants as specified under the terms of the 2018 Credit Agreement. Working capital requirements vary from period to period depending on manufacturing volumes primarily related to the RV, marine and MH industries, the timing of deliveries, and the payment cycles of customers. In the event that operating cash flow is inadequate and one or more of the Company's capital resources were to become unavailable, the Company would seek to revise its operating strategies accordingly. The Company will continue to assess its liquidity position and potential sources of supplemental liquidity in view of operating performance, current economic and capital market conditions, and other relevant circumstances.

#### CRITICAL ACCOUNTING POLICIES

In the first quarter of 2018, we adopted Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (commonly referred to as "Topic 606"). As discussed in Note 3 to the Condensed Consolidated Financial Statements, the adoption of the new revenue standard did not have a material impact on the Company's revenues, results of operations or financial position nor its revenue recognition accounting policy. There have been no other material changes to our significant accounting policies which are summarized in the MD&A and Notes to the Condensed Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2017.

OTHER

Seasonality

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Manufacturing operations in the RV, marine and MH industries historically have been seasonal and at their highest levels when the weather is moderate. Accordingly, the Company's sales and profits had generally been the highest in the second quarter and lowest in the fourth quarter. Seasonal industry trends in the past several years have included the impact related to the addition of major RV manufacturer open houses for dealers in the August/September timeframe, resulting in dealers delaying certain restocking purchases until new product lines are introduced at these shows. In addition, current and future seasonal industry trends may be different than in prior years due to the impact of national and regional economic conditions and consumer confidence on retail sales of RVs and other products for which the Company sells its components, timing of dealer orders, fluctuations in dealer inventories, and from time to time, the impact of severe weather conditions on the timing of industry-wide wholesale shipments.

#### INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

The Company makes forward-looking statements with respect to financial condition, results of operations, business strategies, operating efficiencies or synergies, competitive position, growth opportunities for existing products, plans and objectives of management, markets for the common stock of Patrick Industries, Inc. and other matters from time to time and desires to take advantage of the "safe harbor" which is afforded such statements under the Private Securities Litigation Reform Act of 1995 when they are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements. The statements contained in the foregoing "Management's Discussion and Analysis of Financial Condition and Results of Operations", as well as other statements contained in the quarterly report and statements contained in future filings with the Securities and Exchange Commission ("SEC"), publicly disseminated press releases, quarterly earnings conference calls, and statements which may be made from time to time in the future by management of the Company in presentations to shareholders, prospective investors, and others interested in the business and financial affairs of the Company, which are not historical facts, are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statements. Any projections of financial performance or statements concerning expectations as to future developments should not be construed in any manner as a guarantee that such results or developments will, in fact, occur. There can be no assurance that any forward-looking statement will be realized or that actual results will not be significantly different from that set forth in such forward-looking statement. The Company does not undertake to publicly update or revise any forward-looking statements except as required by law. Factors that may affect the Company's operations and prospects are contained in the section entitled "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, and in the Company's Form 10-Qs for subsequent quarterly periods, which are filed with the SEC and are available on the SEC's website at [www.sec.gov](http://www.sec.gov).

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

##### Debt Obligations under Credit Agreement

At September 30, 2018, our total debt obligations under our 2018 Credit Agreement were under either LIBOR-based or Base rate-based interest rates. A 100 basis point increase in the underlying LIBOR and prime rates would result in additional annual interest cost of approximately \$2.6 million, assuming average borrowings, including the 2018 Term Loan, subject to variable rates of \$261.5 million, which was the amount of such borrowings outstanding at September 30, 2018 subject to variable rates. The \$261.5 million excludes the reclassification of deferred financing costs related to the 2018 Term Loan and \$200.0 million of borrowings outstanding under the 2018 Credit Facility that is hedged at a fixed interest rate through interest rate swaps.

##### Inflation

The prices of key raw materials, consisting primarily of lauan, gypsum, particleboard, aluminum, and petroleum-based products are influenced by demand and other factors specific to these commodities, such as the price of oil, rather than being directly affected by inflationary pressures. Prices of certain commodities have historically been volatile and

continued to fluctuate in the first nine months of 2018. During periods of rising commodity prices, we have generally been able to pass the increased costs to our customers in the form of surcharges and price increases. However, there can be no assurance future cost increases, if any, can be partially or fully passed on to customers, or that the timing of such sales price increases will match raw material cost increases. We do not believe that inflation had a material effect on results of operations for the periods presented.

#### ITEM 4. CONTROLS AND PROCEDURES

##### Disclosure Controls and Procedures

The Company maintains “disclosure controls and procedures”, as such term is defined under Securities Exchange Act Rule 13a-15(e), that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934, as amended (the “Exchange Act”) reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s 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 for timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, the Company’s management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and the Company’s management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Under the supervision and with the participation of our senior management, including our Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report (the “Evaluation Date”). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information relating to the Company, including consolidated subsidiaries, required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and is accumulated and communicated to the Company’s management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

##### Changes in internal control over financial reporting

There have been no changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the third quarter ended September 30, 2018 or subsequent to the date the Company completed its evaluation, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II: OTHER INFORMATION

Items 1, 3, 4 and 5 of Part II are not applicable and have been omitted.

## ITEM 1A. RISK FACTORS

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

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) None.

(b) None.

(c) Issuer Purchases of Equity Securities

| Period                           | Total Number of Shares Purchased (1) | Average Price Paid Per Share (2) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3)(4) | Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Program (3) (4) |
|----------------------------------|--------------------------------------|----------------------------------|---|---|
| July 2 - July 29, 2018           | 44,135                               | \$ 56.29                         | 44,135  | \$34,915,439  |
| July 30 - September 2, 2018      | 40,760                               | 63.22                            | 40,760  | 32,338,742  |
| September 3 - September 30, 2018 | 262,796                              | 60.34                            | 262,340   | 16,455,577  |
|                                  | 347,691                              |                                  | 347,235   |   |

(1) Includes 456 shares of common stock purchased by the Company for the sole purpose of satisfying the minimum tax withholding obligations of employees upon the vesting of stock awards held by the employees in the September 3 to September 30, 2018 period.

(2) Includes commissions paid to repurchase shares as part of a publicly announced plan or program.

(3) In January 2018, the Board approved a new stock repurchase program that authorizes the repurchase of up to \$50.0 million of the Company's common stock over a 24-month period (the "2018 Repurchase Plan") to replace the repurchase plan the Board previously approved in January 2016 that had expired in January 2018.

In May 2018, the Board approved an increase in the amount of the Company's common stock that may be acquired over the next 24 months under the 2018 Repurchase Plan to \$50.0 million, which included the \$8.5 million remaining under the original \$50.0 million authorization announced in January 2018.

In the first nine months of 2018, the Company repurchased 1,282,930 shares under the 2018 Repurchase Plan at an average price of \$58.48 per share for a total cost of \$75.0 million.

(4) In October 2018, the Board approved an increase in the amount of the Company's common stock that may be acquired over the next 24 months under the 2018 Repurchase Plan to \$50.0 million, which included the \$3.6 million remaining under the \$50.0 million authorization announced in May 2018. Year-to-date through November 7, 2018, the Company repurchased 1,796,484 shares at an average price of \$56.12 per share for a total cost of \$100.8 million.





ITEM 6. EXHIBITS

| Exhibits | Description   |
|----------|---|
| (1)      |   |
| 31.1     | <u>Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer</u>                             |
| 31.2     | <u>Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer</u>                             |
| 32       | <u>Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer and Chief Financial Officer</u> |
| 101      | Interactive Data Files. The following materials are filed electronically with this Quarterly Report on Form 10-Q:                     |
| 101.INS  | XBRL Instance Document  |
| 101.SCH  | XBRL Taxonomy Schema Document   |
| 101.CAL  | XBRL Taxonomy Calculation Linkbase Document   |
| 101.DEF  | XBRL Taxonomy Definition Linkbase Document  |
| 101.LAB  | XBRL Taxonomy Label Linkbase Document   |
| 101.PRE  | XBRL Taxonomy Presentation Linkbase Document  |

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.

PATRICK INDUSTRIES,  
INC.  
(Registrant)

Date: November 8, 2018 By: /s/ Todd M. Cleveland  
Todd M. Cleveland  
Chief Executive Officer

Date: November 8, 2018 By: /s/ Joshua A. Boone  
Joshua A. Boone  
Vice President-Finance and Chief Financial Officer